

NEWS: EUROPE

Auditors criticise Commission over import schemes and over-compensation of farmers

EU told of errors in 5% of its payments

By Michael Smith
in Strasbourg

The European Union's ability to fight fraud and manage its finances came under heavy fire yesterday, as its Court of Auditors suggested that more than 5 per cent of all payments last year may have involved errors.

Bernhard Friedmann, president, said that because of the volume of errors, his court was "unable to give an affirmative statement regarding the legality and

regularity of the transactions underlying payments". He stressed, however, that overall, the 1996 accounts gave an accurate view of the revenue and expenditure.

Yesterday's report took the EU and the European Commission, the union's executive, to task over a range of issues from the administration of preferential import schemes to apparent over-compensation to farmers through the Common Agricultural Policy.

The court found that in 1995-96 alone, cereal farmers

were paid Ecu1bn (£3.4bn) more than was necessary to compensate them for previous reductions in CAP support prices. Mr Friedman said he was concerned that there was no provision in the CAP for reducing subsidies to farmers in line with rising world prices.

The Commission welcomed the report and said it agreed with the court about the over-compensation of cereal farmers. But while it had wanted to reduce aid payments, neither member countries nor parliament

had accepted its proposals. The UK said it would treat the reduction of fraud and waste as a prime aim in its six-month presidency of the EU, which begins in January. "This report makes disturbing reading, but it is a useful tool in the fight against fraud and mismanagement," said Helen Liddell, treasury minister.

The court's report for 1996 is the latest in a series of critical annual assessments. Although the error rate of 5.4 per cent is less than the previous year's 5.5 per cent,

court members said the statistical method they used – by taking samples – would not enable the EU to claim an improvement unless it was shown to be part of a consistent trend.

In addition, the percentage of cases for which it was impossible to make an audit assessment had risen from 23 to 43 per cent.

The court said that almost all chapters of its 417-page report include observations on administration and control weaknesses which demonstrated that the development

NEWS DIGEST

France in move on UK and ECB

Britain's place in the inner sanctum of the future European Central Bank (ECB) may be kept warm by a smaller European Union member state until the UK joins the euro, according to a French minister.

Pierre Moscovici, European affairs minister, made the suggestion in a Financial Times interview in Paris yesterday. His comments came about 10 days after Jacques Chirac, the French president, and Lionel Jospin, the prime minister, said Britain should have a representative on the bank's six-member executive board "as soon as it joins the euro". France thus publicly lined up with a proposal by Helmut Kohl, the German chancellor, that a seat at the ECB should be reserved for Britain.

Asked how the proposal might be implemented in practice, Mr Moscovici replied: "In practice, what that could mean is that the seat would be occupied by another country, not one of the bigger countries, for a determined period of perhaps four years, before the baton was passed on to the UK." He added that it was "not a good idea to leave the seat vacant". Mr Kohl initially indicated he was ready to keep a seat vacant, making it easier for the UK to make a late entry into the European single currency.

David Owen and Andrew Jack, Paris

■ STATE AID

Commission resolves VW row

One of the most controversial disputes between the European Commission and Germany was yesterday brought to a formal close, when Brussels agreed to allow DMSm (£57m) of state aid to be paid to a Volkswagen plant in the state of Hesse.

The decision was taken after the German authorities agreed to recover a separate amount of DMS90m of state aid paid unlawfully last year to VW in Saxony. Last year the Saxony authorities flouted a Commission ruling that the state aid breached Treaty rules, and channelled it to the car plant anyway. The Commission refused to take any further decisions regarding aid to VW until the aid was paid back.

The DMS9m of aid destined for the Hesse plants is part of a DMS56m investment by VW to launch a new type of automatic gear box. The Commission has also decided to investigate aid paid by the Spanish authorities to Daewoo, the Korean company, which is building a refrigerator plant in Vitoria. Other companies have complained that the creation of new production capacity, helped by state subsidies, will lead to the closure of other plants in Europe.

Emma Tucker, Brussels

■ PRIVATISATION

Düsseldorf airport deal

The first part-privatisation of a German airport was sealed yesterday, when the state of North Rhine-Westphalia agreed to sell its 50 per cent holding in Düsseldorf airport to a consortium of Hochstådt, the construction subsidiary of the RWE group, and Aer Rianta, the Irish airport manager.

The remaining 50 per cent will continue to be held by Düsseldorf city, which has to give its formal approval to the DMS53m (£206m) deal next month.

Düsseldorf airport was badly damaged by fire in April last year and the cost of its rebuilding and expansion has been put at around DMS2bn. Wolfgang Clement, state economics minister, said the successful bidders combined international airport experience and a strong financial position. However, the sale to Hochstådt and Aer Rianta has been controversial because the state earlier designated a rival consortium, comprising the Dortmund-based Harpen group and Airport Group International of the US, as "preferred bidder".

Mr Clement said yesterday the state would now press ahead with privatising its 30 per cent stake in the nearby Cologne-Bonn airport.

Peter Norman, Bonn

■ BONN RESHUFFLE

Oswald given building role

Edward Oswald, a parliamentarian from the Bavarian Christian Social Union (CSU), was yesterday nominated as building minister in the Bonn cabinet.

He will take the place of Klaus Töpfer, who has been offered the job of heading the United Nations environment programme in Nairobi. The chancellery announcement that Mr Oswald, 50, will replace Mr Töpfer, a Christian Democrat, from January means the CSU will keep four cabinet posts after the impending abolition of the post and telecommunications ministry and the retirement of Wolfgang Bötsch, its minister.

Yesterday's news that the CSU was maintaining its presence in Bonn should have given Theo Waigel, finance minister and CSU leader, a boost before the party's annual congress on Friday. However, the image of a smooth handover was upset when Mr Bötsch, 55, announced he would no longer be a candidate for the party's governing board, apparently in anger at not being given the building ministry.

Peter Norman

■ FRENCH JOURNALISTS' STRIKE

Fight to keep tax privileges

French journalists yesterday staged a 24-hour strike in a last ditch attempt to persuade the Jospin government to shelve plans to end their tax privileges. The measures are part of the government's efforts towards budgetary austerity.

The government is proposing to phase out journalists' 30 per cent tax allowance, which is traditionally applied on the basis of professional expenses incurred. Several professional bodies have accumulated special tax privileges over the years that the government is now seeking to end. Journalists are among the most vocal groups, and in 1986 staged off a previous effort to bring them into line. Yesterday, Lionel Jospin, the prime minister, received a journalists' delegation. But he is understood to have said the matter is up to parliament. The journalists' move comes when the 1998 budget is all but finalised.

Robert Graham, Paris

■ DISCO BOMBING

Five go on trial in Berlin

The trial opened yesterday of five people accused of being responsible for the 1996 bombing of the La Belle disco in West Berlin.

The bombing, in which three people were killed and more than 200 wounded, was believed to have been ordered by the Libyan authorities and prompted reprisal attacks on Libya by the US Air Force. Two Americans died in the bombing of La Belle, which was popular with US troops stationed in West Berlin.

The prosecution claims that the accused, three men and two women, organised the bombing through the Libyan embassy in East Berlin. The prosecution case is supported by information gathered by the East German secret police force the Stasi, which came to light after German reunification in 1990.

The Stasi is believed to have been aware that an attack was being planned. Shortly after the bombing US intelligence claimed to have intercepted wireless messages from the Libyan embassy in East Berlin claiming success for the bombing. The trial, which after a short hearing was adjourned until next week, is expected to last until July 1998.

Frederick Stedman, Berlin

Tax aid schemes to be curbed

By Emma Tucker in Brussels

The European Commission yesterday signalled its intention to crack down on special tax regimes adopted by member states to lure business investment, because of fears that they distort the single market.

With schemes such as Ireland's special 10 per cent corporate tax for manufacturing industries in mind, Karel Van Miert, the competition commissioner, has proposed a thorough review of the regimes.

The countries likely to be most affected include Ireland, Spain, which is sensitive about the tax status of the Canary Islands, and Belgium and the Netherlands, which have special regimes for multinational companies.

However, virtually all the member states have some special tax arrangements, mainly to attract inward investment. Brussels has to decide whether the regimes amount to state subsidies, and therefore breach EU rules of fair competition. It is likely to draw up a framework giving its interpretation of the law, to which member states would have to signal their agreement. Members which did not comply could be taken to court.

The issue is extremely sensitive but support for co-ordinated action is growing. Many member states now believe that the benefits of a general crackdown would outweigh losses incurred through the dismantling of their own schemes.

"We want to see fiscal aids cracked down on," said an EU diplomat. "There is a body of support for action."

Germany and France are particularly keen for action ahead of economic and monetary union in 1999, when competition between member states will intensify.

The debate heated up earlier this year when René Laurent, the French carmaker, chose to relocate from high-tax Belgium to Spain, which offers more favourable fiscal conditions.

Complaints about Ireland's special tax regime have also intensified. Mr Van Miert believes the country's 10 per cent regime – offered to all internationally traded manufacturing industries – amounts to a state subsidy.

Ireland plans to introduce a uniform 12.5 per cent corporate tax rate as a solution to the problem. This would make it difficult for the Commission to act as it can ban special regimes only if they discriminate in favour of certain sectors. However, Dublin and Brussels are in dispute over the timing. Ireland wants to bring in the new regime in 2010 when the 10 per cent regime expires.

Commission to escape BSE censure

By Michael Smith

A nine-month threat of parliamentary censure hanging over the European Commission seems certain to be lifted today in spite of lingering misgivings among MEPs over its handling of the crisis over BSE ("mad cow disease").

Although bardline critics were yesterday still attempting to find the 63 signatures necessary to propose a censure in the European Parliament today, the main political parties had already decided to support the Commission if a vote took place.

The hacking follows a series of concessions by the Commission, which was given time to change its

policies when it was first threatened with a vote to sack it earlier this year. Commissioners agreed yesterday to back parliamentary calls for a fund for victims of a new strain of Creutzfeldt-Jakob Disease, a human illness linked to BSE.

Jacques Santer, Commission president, told MEPs that the families of victims "deserve our support". Commission officials said that any final decision on finances would have to be made by member states.

In a debate on the Commission's conduct over BSE, Dagmar Roth-Behrendt, who chairs a BSE parliamentary committee, said that she would not have believed six months ago that the Commission could have

such progress on issues including the introduction of more transparency into food policy-making processes and the improvement of abattoir inspection procedures.

She warned, however, that parliament expected "high-quality" reports every six months from the Commission on BSE. "We want to make sure this new spirit of transparency does not wane and ebb," she told Mr Santer. "We do not want you to get drywet."

Other MEPs said parliament had strengthened its authority. "The European Parliament has come of age in terms of monitoring and investigating the Commission," said Pauline Green, leader of

the majority Socialist group.

A report by the BSE committee noted the Commission's progress in most areas of concern, praising plans for new legislation to improve food quality control and the separation of monitoring and legislative functions in food policy.

However, it criticised the Commission for failing to take action against the UK. The committee wanted Britain to pay for some of the funding earmarked to eradicate BSE.

The committee would also have liked action to have been taken against some officials in the agriculture directorate and against some former and current commissioners.

France seeks bigger WEU role

By David Buchan,
Diplomatic Editor

France yesterday tried to jolt its partners in the 10-nation Western European Union (WEU) into giving fresh impetus to the organisation, which plays a secondary role to the Nato alliance.

Hubert Védrine, the French foreign minister, suggested to fellow ministers at the WEU's six-monthly meeting at Erfurt in Germany yesterday that their defence organisation could not go on as it was. "We can watch the WEU expire, or we can watch it getting a second wind," he said.

He reminded members that the 1948 Treaty of Brussels gave them the right to leave the WEU after its 50th anniversary next year, and even hinted that some members should do so if they were not ready to see a more ambitious role for it.

The Erfurt meeting also pledged support for turning the present four-nation armaments agency, grouping Germany, France, Britain and Italy, into a wider European body, arguing that this would "encourage European defence industries to form partnerships with each other".

Mr Védrine's intervention reflects France's frustration that, in the wake of its decision earlier this year not to re-integrate its forces into Nato, it has been forced back on the WEU as the main focus of its efforts to create a European defence identity. But their enormous doubts about the euro will not disappear easily. "It will be a source of confrontation between us and the government," Mr Védrine said last week. "We still believe there should be a referendum and we will press for this."

If the Communists give way further on the euro, their identity will become ever more amorphous inside the left dominated by the Socialists. Unless Mr Jospin begins to make mistakes, they may have no alternative.

Robert Graham

Chubais faces dismissal vote

By Chrystia Freeland and Charles Clover in Moscow

The Russian parliament will today vote on a motion calling for the dismissal of Anatoly Chubais, the first deputy prime minister, in a continuation of the attack on himself and his allies.

A Kremlin spokesman said the legislature had voted to accept the resolution, which was introduced by the opposition Liberal Democratic Party. The resolution was passed by a large majority, with only a few votes against it.

But pressure on several other fronts suggested that Mr Chubais, who survived a weekend purge in which three of his protégés were sacked, remains in jeopardy.

The three ministers were sacked over a controversial book on

privatisation, co-authored by Mr Chubais and four of his allies. The book's authors were each awarded \$30,000 for their contribution. The publisher is owned by a Russian bank which Mr Chubais' political opponents allege he has favoured.

Over the weekend, Mr Chubais was publicly rebuked by the president for his role in what has been dubbed the "writers' union" affair, but he retained his post. However, the prosecutor-general yesterday ordered his subordinates to intensify their investigation of the book and a \$100,000 fee for an earlier book on privatisation written by a Chubais ally.

They compiled with a vengeance yesterday, questioning three key Chubais allies as yet unpublished, book on

and co-authors and warning that they plan to question Mr Chubais and another co-author later this week. The pressure is so fierce that another sacked co-author was taken to hospital after a heart attack.

On Friday parliament is scheduled to debate the 1998 draft budget, and the dominant Communists yesterday reiterated their intention of voting it down so long as Mr Chubais remains in office.

Yabloko, the liberal opposition faction, said it would oppose the budget too, but its objection is to what it views as unrealistic expenditure targets.

However, some observers

said they expect the budget to pass, despite the pressure from the Communists.

"Chubais is a political figure. He has lost his air of professionalism and he has lost his image as an honest guy," said Lily Shevtsova of the Carnegie Moscow Centre.

See Editorial Comment

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NEWS: EUROPE

Interim deal lets two rival digital TV ventures share selected broadcasts for rest of season

Truce in Spain's 'pay-per-view' football war

By David White in Madrid

An armistice has been declared in Spain's war over "pay-per-view" broadcasts of football matches, a core business for the country's two rival digital television ventures.

Deadlock over broadcast rights for Spanish league and cup ties has meant neither venture has transmitted "pay-per-view" matches since the second company, Via Digital, started broadcasting over two months ago.

Under an interim deal, they are now set to share selected soccer

broadcasts for the rest of the season. Subscribers have the prospect of seeing the same pictures of the same match at the same price on either of the networks.

Battle-lines were drawn 11 months ago, when three TV companies agreed to pool the rights they had signed with top Spanish clubs in a joint venture, Audiovisual Sport. The partners were the private Antena 3 station, Catalonia's TV3 regional network and Sogecable, which runs Canal Plus pay-TV in Spain.

Sogecable's main shareholder, alongside Canal Plus of France, is

the Prisa group, publisher of the daily *El País*. Its digital network, Canal Satélite Digital, has been broadcasting since January amid a regulatory tussle with the government.

Up to the summer, it was offering its subscribers exclusive football, having paid Pta15bn (\$102.7m) to the shareholders of Audiovisual Sport for pay-per-view rights up to the 2002-3 season.

Everything changed in July when Telefónica, the telecoms group, bought the controlling stake in Antena 3. Telefónica is

the main shareholder in Via Digital, along with the state-run RTVE broadcasting authority and other partners.

It asserted its claim to Antena 3's former rights, covering half Spain's star-studded first division, including the two big Madrid sides Real Madrid and Atlético.

While Canal Satélite Digital's contract appeared clear cut from the 1996-9 season onwards, confusion reigned about who held what rights for 1997-8. The original rights come under a previous agreement with Forta, a grouping of regional TV stations.

On the first day of the new season, Canal Satélite Digital set out to show three matches. It succeeded in showing only one. At Mallorca's stadium, club officials intercepted its cameramen and disconnected their power cables.

Peace talks broke off when Via Digital decided to broadcast a Sunday match earlier this month – without charging for it. In the event, a transmission hitch meant many subscribers got a blank screen.

A truce has now been reached through the good offices of Jesús Gil y Gil, the ebullient Atlético

chairman, nominated as mediator by Spain's Professional Football League. The TV companies are to keep their Audiovisual Sport partnership going for the time being, to provide shared broadcasts.

But they did not settle the question of who owns the "pay-per-view" rights, which is to go to arbitration. A deal for Via Digital to show football for the next five seasons has still to be negotiated. "I hope this peace is definitive," Pedro Pérez, Via Digital chairman, said yesterday. But another senior television executive said it was "not peace, but a ceasefire".

Swiss fund pays Jewish survivors

By Matej Vipotnik in Riga

The Swiss Fund for Needy Victims of the Holocaust yesterday presented cheques for \$400 to 80 Jewish survivors at a ceremony in Riga, Latvia.

The event was the first time the fund, which was created in February after a row about dormant Swiss bank accounts dating back to the second world war, had made contributions to Holocaust survivors.

The fund's assets of \$300m have been donated by the Swiss government and by business. Some \$11m is available for Holocaust victims in eastern Europe, although the money is only beginning to be paid out.

The fund will not compensate the holders of dormant accounts and is unrelated to the proposed Swiss Foundation for Solidarity which will disburse funds to victims of genocide, torture and other human rights violations.

The \$400 cheques presented yesterday were the first instalments of a total of \$1,000 to be given to each survivor.

Though pleased with the contributions, the recipients, many of whom receive limited financial support from the local Jewish community, were generally perplexed by the Swiss origin of the money and by its limited life-span.

"What we need is a monthly payment, and it should come from Germany, not from Switzerland," said Jane Borovska, a survivor. After the second world war, Germany paid compensation for victims of war directly to the Soviet government, which never distributed the money.

Negotiations aimed at reaching a new compensation settlement are underway between the German government and Jewish organisations.

The Latvian government indicated that steps would be taken to help the survivors financially.

Turks sense time is running out over European ambitions

Ankara is threatening to go its own way if there is no progress on EU membership

Over dinner at the European Union summit in Luxembourg tomorrow, heads of state and government will have to face a difficult but familiar issue: how to deal with Turkey's welcome demand for inclusion in the EU enlargement process.

The issue has become increasingly thorny in recent months, which is why it has appeared on the agenda of what is supposed to be a "Jobs" summit.

Anti-European opinion in Turkey is hardening over what is considered to be anti-Turkish discrimination and a one-sided trade relationship.

Turkey's ostensibly pro-European government is warning that without a solid prospect of future membership, the country may go its own way in political and security as well as trade arrangements.

Recently the talk has become more inflammatory. Last week, Işın Celebi, trade minister, said: "If we are not included in the EU's expansion process, I will impose non-tariff barriers on [EU] goods. For as long as I have the power, I will do

this. Legally we have the right."

Later, a group of unidentified generals told the Turkish Daily News, an English language newspaper, that "Europe has excluded Turkey. [It]

indicates there is going to be

a "Jobs" summit.

Güneş Taner said yesterday the

agreement would not be a "stand-by, but a

unique deal that might become a model for developing countries". He gave no details but added that an understanding might be reached in one month.

Ministers hope that IMF support for their three-year economic strategy would help lower Turkey's high borrowing costs in local and international markets. Turkey has complied with few of the 16 standby

agreement loans worth \$4.25bn it has

signed with the IMF in the last 50 years.

Turkey's economy minister says he plans to sign a unique type of agreement with the International Monetary Fund to help build international confidence in the country's economy, writes John Barham in Ankara.

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imbalance in Europe's favour. Meant Yilmaz, the prime minister, whose decision to scale back

Turkey's previous unrealistic demands for immediate membership won support in the EU, has

remained silent.

He says it has become accession. However, many Turks sense that time is running out for their European ambitions.

Cem Duna, the diplomat

who negotiated the customs union, admits that he is "disillusioned".

He says it has become

see customs union as an inferior alternative, rather than a stepping stone to membership.

In July the Commission decided to exclude Turkey from its list of six countries invited to open membership negotiations. Next month's summit will decide whether to invite Turkey to a proposed "European Conference" of present and future EU members.

However, even this is controversial – hence the discussions at tomorrow's jobs summit.

Both Germany and Greece, Turkey's ancestral enemy, oppose encouraging Turkish membership in anything but the very long term.

Greece has also blocked financial aid promised under the customs union agreement.

Scandinavian countries feel Ankara should improve its human rights record.

Most other governments believe that including Turkey in the conference would encourage it to meet membership criteria.

Turkish officials would welcome participation in the conference if it included a pre-accession strategy to

"very difficult for people like us to define the country's European future."

The country has had to deal with its fair share of slights.

The European Commission twice rejected Turkish membership applications in the 1990s and many Turks

help Turkey prepare for entry. A senior European official said: "Turkey feels frustrated because the rules for entry do not conform to the way Turkey is at the moment. The question is, does Turkey want to move forward or continue being the Turkey it is today?"

As things stand today,

Turkey does not fully meet any of the EU's membership criteria laid down at the 1993 Copenhagen summit. Its economy is racked by 8 per cent inflation and an unreconstructed public sector.

In June, the military

forced the elected

Islamist-led coalition of Necmettin Erbakan from

government in a "soft coup".

The state suppresses

Kurdish minority rights and

is accused of widespread

human rights violations.

However, European

leaders realise that mishandling Turkey now

could jeopardise the

renunciation of Cyprus, divided since Turkey's 1974 invasion.

Ankara has said that it will begin integrating the Turkish Cypriot northern sector with the mainland if the Greek Cypriot government opens EU membership talks next March as scheduled.

Additionally, Turkey's secularist establishment frequently warns that excluding Turkey from enlargement would only encourage militant Islam.

But, paradoxically, Turkey's embattled Islamists have dropped their shrill anti-European rhetoric.

Abdullah Gülen, a moderate

Islamist MP, said his Welfare party supported Turkish EU entry, with the hope that

membership would prevent another "soft coup" and

block government attempts

to proscribe the party ever again.

John Barham

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NEWS: ASIA-PACIFIC

Airing the unmentionable... aid for Japan banks

The comment might have been off-the-cuff, if indeed it meant what it was understood to mean. But when the Japanese media yesterday reported that Ryutaro Hashimoto, Japan's prime minister, had told pursuing journalists he was considering using public money to help Japan's banks, it electrified the markets.

As one trader said: "Some people were scrambling to buy bank shares - it was quite a change from last week."

The reason for the excitement was clear. As Japan's financial problems have mounted in recent years, the government has insisted that it would not use public money to bail out banks.

Instead, it argued that any financial problems - such as

bank collapses - could be covered by an industry insurance scheme known as the Deposit Insurance Corporation. This is financed through a quasi "tax" on bank deposits.

But now there are hints of a shift. With the financial sector now looking more shaky than ever, parts of the ruling Liberal Democratic party have started to propose the hitherto unmentionable - public funds to stabilise the financial system.

While Taku Yamasaki, the party's policy head, was explicit about it, Mr Hashimoto found it necessary later in the day to deny the remark attributed to him.

Jiji news agency quoted him as saying: "I have never said that public funds would be used. Please do not misunderstand me."

In an earlier report, Jiji said Mr Hashimoto had responded to a question about what he thought about the use of public funds to help banks deal with their problems by saying: "We will hold an economic ministers' meeting now with those

issues in mind."

Though some banking analysts remain deeply cynical about whether the idea would actually gain support, the suggestions are provoking a wave of discussion within the Bank of Japan and finance ministry.

There are two main proposals around. One would aim to improve the way that bank collapses are handled by increasing the funds in the DIC. This could be done through a rise in the banking levy or new infusion of funds.

This idea is strongly opposed in parts of the finance ministry. However, some officials also recognise that the DIC could come under further strain if there were more collapses, like that of Hokkaido Takushoku bank on Monday.

The current DIC scheme will collect some Y1,700bn (\$21.5bn) in the next five years, but has already spent some Y1,400bn of this.

The second idea would aim to help banks even before they fail, by establishing a government agency to purchase preferential shares in banks. This would allow them to strengthen their capital base.

It could also run into serious opposition. Some officials fear the scheme would create a severe "moral hazard". Furthermore, it is unclear where the funds might emerge from.

Given this, few officials expect any rapid decision.

Indeed, some banking analysts think the concept will eventually die.

But with the LDP due to present a package of economic proposals next month, the proposals are unlikely to vanish quickly either.

As one senior government official says: "The positive reaction of the stock market may mean that the government will have to do something. Otherwise there could be real disappointment."

Gillian Tett

Long-term focus for reforms

By Gillian Tett in Tokyo

The package of 120 measures unveiled yesterday by Japan's Economic Planning Agency (EPA) centred on structural changes such as deregulation in telecommunications, the financial industry and transport sectors.

The reforms were similar to proposals made earlier this month by the ruling Liberal Democratic party. Most were announced earlier this year.

The EPA yesterday argued that the measures could provide a significant boost to the economy in the medium to long term, adding some Y60,000bn (\$477bn) of demand over the next decade to gross domestic product (which is currently around Y500,000bn).

Government officials argued that the style of the package, which focuses on longer-term structural change rather than short-term boosts, marked a shift

in the government stance. In particular, the government now recognises that the type of fiscal "pump priming" measures in its last economic package in 1995 were no longer providing a satisfactory solution.

One plank of yesterday's package centred on moves to boost the property market by lifting regulations on land use and facilitating real estate securitisation. Another element was construction of a new airport.

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Gillian Tett

Renong deal hits Malaysia shares

By James Kyne in Singapore

An extraordinary deal which appeared devised to bail out the business arm of Malaysia's ruling political party yesterday drove share prices in Kuala Lumpur to their lowest level in more than four years and depressed the ringgit.

News that UEM, a stock favoured by foreign investors, had borrowed some MS2.4bn (US\$724m) to buy a 32.6 per cent stake in its parent company, Renong, one of Malaysia's top companies, at a hefty premium to the market price, stunned many investors.

"The fact that this happened probably means that there are more bail-outs down the road," said Chong Yoon Chon, investment manager at Aberdeen Asset Management in Singapore.

Renong is in effect controlled by the United Malays National Organisation, the party of Mahathir Mohamad, the prime minister. It is the nation's top infrastructure company and is leading a drive to build two new cities, Putrajaya for MS20bn and Cyberjaya for MS10bn, near Kuala Lumpur. Without Renong, the vision of Dr Mahathir for Malaysia to attain developed status by 2020 would be in tatters.

Yet the amount of money which UEM had to borrow to invest in Renong suggested that the company's cash-flow problems are more serious than many believed, analysts said. They were also worried that UEM had been forced into debts which it might have trouble servicing if interest rates continued to climb.

The Kuala Lumpur Stock Exchange's Composite Index fell 45.20 points, or 6.5 per cent, to 623.09, its lowest point since March 1993. It is down more than 50 per cent this year. UEM was down 38 per cent and Renong down 20 per cent.

The ringgit fell to a low of MS3.3 against the US dollar in late trade yesterday.

The fact that authorities granted UEM a waiver from making what should have been a mandatory general offer to buy all of Renong's shares, shook investors' faith in the principles of Malaysian corporate governance.

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Stabilisation package expected today in push to end currency crisis

Seoul tries to avoid seeking IMF aid

By John Burton in Seoul

South Korea is expected to offer a financial stabilisation package today in what is seen as a last-ditch effort to avoid seeking help from the International Monetary Fund to end a growing currency crisis.

The government said it would proceed with measures to rescue debt-laden banks despite the failure of parliament yesterday to pass legislation that would restructure Korea's creaky financial system.

But analysts were not optimistic that the proposals would soothe Korea's jittery financial markets. "Things are deteriorating at such a rapid pace I don't see how Korea can avoid going to the IMF for a bail-out," said Daniel Harwood, north-east Asian manager for ABN Amro Hoare Govett in Seoul.

The Korean currency, the won, yesterday fell to a record low of 1,012.80 to the US dollar despite brief intervention by the central bank, while the benchmark three-year corporate bond yield climbed to a 27-month high of 13.65 per cent.

Concerns are growing among US policymakers that Korea's financial problems could aggravate similar troubles in Japan, which would then affect US financial markets.

Any IMF bail-out of Korea would be likely to be supported by contributions from the US and Japan, among others, since the rescue package, at an estimated \$50bn, would probably

exceed IMF capabilities.

In Manila, where finance ministers from Asia and the US are meeting, Lawrence Summers, US treasury secretary, held talks with South Korean officials but would not comment on whether he had discussed any form of rescue package.

Finance ministry officials in Seoul have denied any intention of seeking help from the IMF because it would represent a loss of "economic sovereignty".

But central bank officials are reported to have told the finance ministry that Korea should consider approaching the IMF because even state-run banks are having difficulties in raising foreign cap-

ital due to recent credit downgrades.

The possible refusal by foreign banks to roll over short-term debt, which accounts for nearly 60 per cent of Korea's total foreign debt of \$10bn, would exhaust the nation's foreign currency reserves, which had declined by an unknown amount from last month's figure of \$30.5bn due to central bank support for the won.

Investment banks, which specialise in short-term corporate financing, have already seen their credit lines cut by foreign lenders, which could result in a new round of corporate bankruptcies as the investment banks

call in their loans.

Foreign banks are becoming nervous about the apparent inability of the government, distracted by a presidential election next month, to deal with the failing banks and a string of corporate collapses.

The government's response has also been hampered by bureaucratic squabbling between the finance ministry and central bank.

The decision yesterday by parliament to delay passage of financial reform legislation until at least January, despite a reported resignation threat by the finance minister, reflected protests by the central bank.

Legislation would grant it

independence in setting monetary policy, but the central bank would lose supervisory authority over the banks, with a resulting cut in staff jobs that have triggered strike threats by employees.

Bank supervision would be included in a new agency, controlled by the finance ministry, that would oversee the insurance and securities industries.

An IMF bail-out would help the central bank in its bureaucratic struggle, since the finance ministry would be shorn of many of its considerable powers, as the IMF is likely to demand economic deregulation as a condition for any rescue package.

Rupee steadied ahead of turbulence

By Mark Nicholson in New Delhi

The Reserve Bank of India, the central bank, yesterday moved to steady a slide in the rupee as it touched a 21-month low of Rs37.52 to the dollar. It issued a statement saying it considered the currency's recent "adjustment" to be "adequate", while seeking to distance India's "strong" economy from those of its troubled Asian neighbours.

The bank's attempt to calm the markets came on the eve of an expected political storm over allegations surrounding the 1991 assassination of Rajiv Gandhi, then Congress party leader, which could threaten the survival of India's fragile United Front coalition.

The rupee recovered on the RBI statement to close at Rs37.39 - down from Monday's closing Rs36.91 - with Bombay dealers suggesting the currency could steady at these lev-

els. The rupee has eased since mid-August from a stable plateau of around Rs38 to the dollar.

The RBI's comments were taken as a clear signal of its desired floor for the currency. "It has placed a huge psychological barrier at these levels," said one Bombay dealer.

C. Rangarajan, RBI governor, said India's economic fundamentals "remain strong", but that the rupee had been "adjusting to the changing circumstances".

He said that, unlike its sharply buffeted Asian neighbours, India's current account deficit remained low as a proportion of gross domestic product and foreign currency reserves, at around \$25bn, had risen by \$3.5bn so far this year.

Currency dealers say the RBI has sold \$600m-\$1bn in the past two weeks to control what appeared to be a modest but managed depreciation of the rupee to aid India's ailing exporters. Exports have risen only

4.2 per cent so far this year on a relatively steady rupee, while many of India's trade competitors have sharply devalued.

Despite Mr Rangarajan's attempt to insulate India from the regional crisis, the depreciation reflects wider negative market sentiment towards Asia which has prompted strong sales of Indian equity by foreign institutional investors. So far this month, these investors have withdrawn a net \$38m, threatening to make this the first month since India opened its capital markets in 1993 to record a net outflow of funds.

A state telephone company was trimmed last week and could be jeopardised by the gathering political storm signalled by leaders of the Congress party.

They have threatened to withdraw political support for the United Front, on which the minority government depends for survival, over the apparent findings of a comis-

sion of inquiry into possible conspiracies behind the death of Mr Gandhi. The 5,280-page report, the result of a five-year inquiry, will be tabled tomorrow.

Leaked and published extracts apparently accuse one of the UP coalition parties, the Tamil Nadu-based Dravida Munnetra Kazhagam (DMK), of overthrowing the Liberation Tigers of Tamil Eelam, the Sri Lankan guerrilla group, in the period before the assassination. Mr Gandhi was killed by a Tamil Tiger suicide bomber during the 1991 election campaign.

Because of these allegations, Congress leaders have insisted the DMK be excluded as a condition of Congress's continued support for the government. UP leaders have resisted such a move.

Unresolved, the impending political clash could prompt a realignment or even threaten dissolution of the government.

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Pinochet in plan for UK arms office

By Jimmy Burns
in London and Imogen Mark
in Santiago

Chile's General Augusto Pinochet is hoping to boost his country's defence ties with the UK by setting up an arms procurement office in London before he steps down from his post as head of the armed forces next March.

Discreet plans to move the Chilean army's main European procurement office from Madrid to London have



Pinochet: seeks London arms procurement office

recently gathered pace against a background of deteriorating relations between the Chilean army establishment and the Spanish government.

The Chilean airforce and navy already have procurement offices in London.

The Spanish defence minister recently postponed a visit to Santiago until after Gen Pinochet has stepped down, and the Chilean army is understood to have cancelled a \$25m order for three transport aircraft from CASA, the Spanish maker.

Gen Pinochet is thought to have been angered by the decision last year of a Spanish judge to launch a private prosecution against him for human rights violations committed during his regime. He came to power after a military coup in 1973 and stepped down as presi-

dent in 1989 but held on to the most senior military post.

The prosecution on behalf of the families of alleged victims of Spanish nationality has little chance of coming to trial. However, the surrounding publicity has raised the human rights issue at a time when Gen Pinochet is hoping to retire with honour.

Under a law imposed by Gen Pinochet as a condition for agreeing to democratic elections, amnesty from prosecution was granted to anyone accused of human rights abuses during the regime.

To Gen Pinochet has been a frequent, if discreet, visitor to the UK. These officially "private" visits have often included talks with UK defence manufacturers.

The Chilean leader has been instrumental in developing for the Chilean army an artillery rocket known as Rayo, designed by British Aerospace.

Bae said this week that the project, details of which remain secret, was "ending its research programme". Final tests are to be carried out in Chile this month, and the Rayo should go into production and on sale next year, according to a Chilean army spokesman.

It is understood that Chilean army officials and BAE are considering attaching a sophisticated computerised guidance system to the rocket, which has several conventional uses, including as an anti-tank weapon.

British defence manufacturers generally are thought to be keen on expanding their links with Chile. But the Pinochet connection may provoke further controversy over the UK government's so-called ethical policy on arms exports. This puts curbs on sales of equipment which might be used for internal repression or external aggression.

NEWS DIGEST

Sabena buys 34 Airbuses

Sabena, the Belgian airline, said yesterday it would buy 34 aircraft from Airbus Industrie, the European consortium, which had fought a fierce battle against Boeing for the order. Sabena said the order, its biggest ever, was for 26 A319s, five A320s and three A321s. Airbus had helped win the contract by offering work to Sabena Technics, the airline's maintenance and engineering arm.

Sabena Technics staff had called on the company to order Boeing 737s because they specialise in maintaining the aircraft for other carriers and feared an Airbus order would result in job losses.

Boeing offered to take an equity stake in the engineering unit if Sabena ordered Boeing. Sabena said it also wanted to have the same aircraft as Swissair, which owns 49.5 per cent of the Belgian carrier. Swissair has also offered Sabena Technics Airbus maintenance work.

*Michael Shapenker, Aerospace Correspondent
British Aerospace, See editorial comment*

AIRLINE BILATERAL DEAL

Lufthansa plans strategic link

Lufthansa and Singapore Airlines are expected to announce a strategic partnership on Monday, which might include a code-sharing agreement between the carriers. This means the companies will be able to sell tickets on each other's flights and offer passengers a joint frequent flyer programme.

Lufthansa said yesterday the bilateral deal would not involve Star Alliance, a powerful club of six carriers led by Lufthansa and United Airlines, of the US, which also includes SAS of Scandinavia, Thai Airways, Varig of Brazil and Air Canada. Analysts say the initial bilateral deal with Lufthansa is likely to lead to Singapore Airlines joining the Star Alliance in the future.

Singapore Airlines already has co-operation agreements with Delta Air Lines of the US and Swiss Air. However, the partnership with Lufthansa would give the airline a much better position in Europe and North America.

It will also strengthen Lufthansa's position in the Asia-Pacific market, which the German airline has sought for some time. Singapore Airlines, one of the world's biggest and most profitable carriers, is 54 per cent owned by the state. Lufthansa is also understood to be in talks with Cathay Pacific.

Artur Ostrousky, London

MEXICO REFINERY CONTRACT

Win for Siemens consortium

A \$2.45bn contract to upgrade one of Mexico's most important oil refineries has been awarded to a consortium formed by Siemens, the German electrical engineering group, Sunkyong Engineering & Construction of South Korea, and Tribasa, a Mexican construction company.

The contractors have agreed to finance modernisation of Cadereyta, a refinery in north Mexico, in what will be the first off-balance-sheet project for Pemex, the state oil monopoly. Because Mexican law forbids private ownership of oil production facilities, Pemex will repay the contractors in half-yearly instalments over a period of 10 years.

Pemex has launched a drive to produce cleaner fuels in order to allow Mexican industry to meet stricter environmental guidelines on air pollution.

New pollution controls were scheduled to come into force in 1998, but have been delayed until Pemex completes the modernisation of facilities such as Cadereyta.

Leslie Crawford, Mexico City

US warns Japan on imported spirits tax

By Frances Williams
in Geneva

Washington yesterday warned Japan that it could face retaliation under World Trade Organisation rules for failing to implement a WTO judgment to end discriminatory taxation of imported spirits.

Rita Hayes, the new US ambassador to the WTO in Geneva, said Japan had still not come up with proposals to comply with an arbitrator's ruling that the tax changes should be completed by February 1998, 15 months after adoption of the WTO's findings.

Addressing a meeting of

the WTO's dispute settlement body, she said she hoped Japan would avoid being the first target for authorised retaliation under WTO rules. These permit the withdrawal of trade concessions from countries that fail to comply with dispute panel rulings or agree compensation.

Japan's implementing legislation delays the final phase of tax increases on the local spirit *shochu* until October 2001.

Earlier this year the European Union negotiated a deal with Japan that reduced tariffs on imported spirits such as whisky to keep the tax differential with *shochu*

within narrow limits during the transition.

However, Washington and Tokyo failed to reach an agreement and the US took the issue to WTO arbitration.

Chile's allegedly discriminatory tax system

quarantine rules for fruit. The US said it was still hoping for an amicable settlement with India which last week reached agreement with the EU and Australia on a six-year phase-out of

agreement reached with New Zealand during the Uruguay Round of trade talks.

EU officials said yesterday that the US and four Latin American countries that brought a successful WTO case against the EU's banana import regime had asked for WTO arbitration to fix a timetable for implementation.

Earlier this month the European Commission proposed implementation within 15 months and one week, close to the 15-month period the WTO regards as a normal maximum, though EU members have still not agreed on how the regime is to be modified.

Washington says Tokyo has still not come up with proposals to comply with arbitrator's ruling

Qatar oil group eyes aluminium, methanol deals

By Judy Dempsey
in Doha

Qatar General Petroleum Corporation yesterday signed two memoranda of understanding to develop an aluminium smelter plant and a methanol manufacturing complex, each worth at least \$1bn.

The MoUs, agreed at the fourth Middle East and North Africa conference which ended yesterday, are

aimed at diversifying Qatar's production base as well as its downstream petrochemical activities.

The smelter MoU was signed between QGPC and Norsk Hydro ASA, the Norwegian aluminium producer which has interests worldwide.

QGPC will hold a 40 per cent stake and Norsk Hydro ASA will hold the remaining 60 per cent, the first time a foreign company will be

allowed take the majority stake.

The joint venture precedes a new investment law currently being drawn up by the Qatar government.

The study carried out by QGPC and Norsk Hydro ASA will consider two options for an aluminium smelter - one with an annual capacity of 200,000 tonnes, the second with a capacity of 400,000 tonnes.

The first option will require a capital investment of \$1bn for a plant which is scheduled to be completed by 2002.

Qatar's plans to develop an aluminium smelter is part of a strategy to use its vast and cheap gas reserves and tap the growing demand for aluminium in south-east Asia.

This MoU follows a recent deal signed by Oman with an international consortium to invest \$3bn in a new alu-

minum smelter plant with annual production capacity of 400,000 tonnes per year.

Dubai is also seeking international partners for a second smelter.

The methanol MoU was

signed between QGPC and Methanex Corporation of Canada to assess the viability of building a plant capable of producing an annual 8m tonnes of methanol.

QGPC will hold a 51 per

cent stake in the project

with Methanex holding the remaining 49 per cent.

The start-up production date could be as early as 2002 with the plant producing industrial methanol mainly for export.

In line with other countries of the Co-operation Council for the Arab States of the Gulf (GCC), Qatar is moving towards allowing greater foreign participation in a bid to diversify its economy.

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NEWS: INTERNATIONAL

Russia claims plan to end Iraq crisis

Russia said it had worked out a plan to bring a peaceful end to the crisis between Iraq and the United Nations after unexpected talks yesterday between President Boris Yeltsin and Tariq Aziz, Iraqi deputy premier. Reuters reports from Moscow.

The US, which has not ruled out military action over Iraq's decision to bar Americans from UN weapons inspection teams, said it had no information on a plan.

Mr Aziz flew in unexpectedly to Moscow yesterday. He met Yevgeny Primakov, Russia's foreign minister, and Mr Yeltsin, who has warned Washington against the use of force.

"As a result of these talks, a specific programme has been worked out which, we believe, allows us to avoid military confrontation and the use of military methods, and to move towards liquidating this crisis, of course with Iraq fulfilling the corresponding UN Security Council resolutions," Mr Primakov said.

Russia, along with fellow Security Council member France, has considerable economic interest in seeing an end to the UN sanctions imposed on Iraq after the 1991 Gulf war. Oil companies from both countries are keen

to do business again with Baghdad.

Mr Primakov said Mr Yeltsin had urged him to meet the US, French and British foreign ministers today and that, if he could not, he would speak to them by telephone. The French Foreign Ministry said the four were discussing meeting in Geneva.

In Washington, Sandy Berger, US national security adviser, said permanent members of the Security Council were trying to arrange a meeting in Europe on Iraq, but it was unlikely to take place today. Madeleine Albright, US secretary of state, is currently travelling in Asia.

Mr Berger also said the US planned to reinforce its air power in the Gulf region because of the crisis.

The US Defence Department said an American U-2 spy aircraft flew a UN mission over central Iraq with out incident yesterday despite previous threats by Baghdad to shoot down such aircraft.

In London, Britain said Iraq could make a small number of chemical and biological arms "in a matter of months" if UN inspectors were removed from the country.

See Comment & Analysis

Luxor killings highlight role of economic reform

The dramatic exposure of Egypt's vulnerability to Islamist militancy has intensified pressure for a radical review of both security measures and the character of future economic reform.

President Hosni Mubarak yesterday publicly berated Hassan al-Alfi, the interior minister responsible for security and the architect of the government's hardline policy toward militant organisations, for the catastrophic security lapse which left one of Egypt's most popular tourist sites unprotected and 87 tourists dead.

During a tour of the massacre site near Luxor yesterday Mr Mubarak turned to Mr al-Alfi, who subsequently resigned, and told him: "You have failed. You don't move. You only stay in Cairo."

The government remains intent upon pursuing its security-centred policy toward the Islamist militants rather than opening political dialogue.

The scale of the slaughter is totally incomparable with the size of the Islamist organisations, and the issues involved are no longer questions of economics or religion," a senior government minister said yesterday. "It is purely a security issue, and we have taken care of it by cutting the head off the snake. But the tail is still wiggling."

Even so, the militants' ability to have a devastating impact despite being a tiny minority lies at the heart of the government's vulnerability. The failure fully to counter the security threat has heightened the importance of economic reform intended ultimately to raise living standards and undermine the militants' constituency.

The tourism industry has played a big role in this reform strategy, with receipts standing at \$3.2bn for this year. New tourism developments on the Red Sea are almost entirely reliant upon construction labourers brought from Luxor and other areas of Upper Egypt in which the militants are most active.

Tourism also underpins the economy of towns such as Luxor, which attracts 2m visitors a year. Cairo tour operators were yesterday deluged with cancellations from all over the world.

"Many groups who are already in Egypt want to leave before the end of their tour," said Hanan Nour of Golden Pharaoh tours. Other operators are still recovering from a 20 per cent drop in business following the killing of nine German tourists by gunmen in central Cairo in September.

Despite the ferocity of the latest attack, investment in tourism is unlikely to be affected dramatically as only one hotel group - Misr Hotels - is quoted on the stock exchange.

However, the government is now likely to accelerate its extensive reform programme to avert a crisis of investor confidence.

This has strengthened my resolve and the government's resolve to diversify the economy, so the impact

of a problem in one sector is diminished. We should have tourism grow, but we should have everything else grow, so that tourism is one sector out of fifty," said Yousef Boutros Ghali, Egypt's economy minister, yesterday. "Even so, I don't think investment will be affected by what has happened, though tourism will take a hit."

Yesterday the Gamma's al-Islamiya, Egypt's main militant organisation, claimed responsibility for the attack. The organisation said gunmen had intended to take foreign tourists as hostages who would be freed in return for release of Omar Abdel Rahman, the militants' spiritual leader now serving life in the US.

Five months ago jailed members of the organisation called for a unilateral truce in the five-year conflict with the government. However, its exiled supporters rejected the truce call and have since precipitated a split within the group. It was they who yesterday claimed responsibility for the attack and threatened more violence.

The exiled leaders don't agree with the truce, mainly because the government hasn't done anything positive since the truce was called," said Yasser al-Sirri, a London-based Egyptian exile with close links to the Gamma's al-Islamiya.

Mark Huband

Probe of Algeria massacres urged

By Tony Hawkins in Harare

Amnesty International yesterday called for an international investigation into recent massacres in Algeria to reveal the truth about those responsible, and accused the international community of turning its back on Algeria's human rights tragedy.

The London-based human rights organisation yesterday detailed the country's descent into bloody chaos, with violence and counter-violence carried out since 1992 behind a wall of silence, which it said was built up through censorship and the authorities' manipulation of information.

The United Nations Children's Fund immediately issued a press release supporting Amnesty's call for concrete action, including the recommendation for an independent investigation into human rights abuses.

In the past year, Algeria's human rights abuses have been exacerbated by relentless massacres of civilians in areas around and south of Algiers. In several cases, security forces appeared to stand by while hundreds of civilians were killed.

The government blames all the violence on extremist Islamist groups. It maintains that security forces could not intervene because they had been tricked into intervening and then ambushed.

According to Amnesty,

Harare's reforms win IMF applause

By Tony Hawkins in Harare

A team from the International Monetary Fund yesterday welcomed the austerity package announced on Monday by Herbert Murerwa, Zimbabwe's finance minister, but made no mention of resumed lending by the Fund itself.

The team, winding up a two-week mission described Dr Murerwa's package, which has had a poor reception in the business community, as "strong and comprehensive" and "a major step forward in the stabilisation effort".

The IMF said it expected that the stabilisation measures would help release \$100m of fast-disbursing balance of payments assistance by the World Bank and other donors. The Fund team described the reversal of some economic reforms - notably the conversion of foreign currency accounts held by domestic companies into Zimbabwe dollars - as a modification, expected to remain in force "only for as long as the acute foreign exchange pressures exist".

Business analysts are far more critical, noting that the package involves \$32bn (US\$133m) of new domestic borrowing. With the associated financing cost (\$360m), higher interest rates and the budgetary cost of increased foreign debt servicing, they say, the budget deficit will be pushed above 10 per cent of gross domestic product this year.

In foreign currency trading yesterday the Zimbabwe dollar stabilised to a mid-rate of about Z\$14 to the US dollar from Z\$14.50 on Monday. There was a modest sell-off on the Zimbabwe Stock Exchange, which has fallen 4 per cent since the currency crisis started last Friday. Institutional investors were switching funds to the money market to exploit the higher interest rates.

Israel urged to exchange land for peace

By Judy Dempsey in Doha

The Middle East and North Africa (MenA) economic conference ended yesterday with a call on Israel to exchange land for peace and remove all restrictive measures and closures on the West Bank and Gaza.

In a declaration that reflected increasing impatience with the Israeli government, the 65 participating countries said Israel must abide by United Nations Security Council Resolutions 242 and 338.

These include trading land for peace, the basis for the 1991 Madrid peace conference.

The declaration ended three days' constant criticism of Israel, with the US often leading the way in demanding Benjamin Netanyahu, Israeli prime minister, abide by agreements signed with the Palestinians.

Mr Netanyahu's intransigence on the peace process was one of the main reasons many Arab states, including Egypt, Morocco and Saudi Arabia, boycotted the conference. It was the largest boycott since the MenA process started in 1994. More than 90 countries attended last year's MenA conference in Cairo.

"It was very important we specifically mentioned the exchange of land for peace in the declaration," said Henry Siegman, director of the Council on Foreign Relations, the US-Middle East project and an influential think-tank committed to the peace process.

The Israeli delegation had tried to block the declaration, saying

the reference to "land for peace" had not been spelt out at the Madrid conference. But they failed to do so and eventually signed the declaration.

Diplomats said they wanted to send a clear message to the Netanyahu government that prosperity in the region could not be attained without a "just, lasting and comprehensive peace". "It's time Netanyahu realised the damage he is causing," a US official said.

The Israeli delegation led by Natan Sharansky, trade and industry minister, attempted to show it was finding ways around the closures of the West Bank and Gaza by promising finally to open the Karni Industrial Estate, a \$21m project financed heavily by US aid.

But the Doha Declaration demanded "the immediate removal of all restrictions", adding the Palestinian economy had "deteriorated dramatically in the past year". Per capita income has fallen 24 per cent and gross national product declined 40 per cent since 1995.

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NEWS: UK

Main pro-British party will voice concern on republic's claim to N Ireland Irish PM to meet unionist chief

By John Kampner,
Chief Political
Correspondent

The government of the Republic of Ireland and the Ulster Unionist party have agreed to meet tomorrow in an attempt to break the deadlock over the republic's future role in Northern Ireland. TBI owns Belfast International airport, Cardiff International in Wales and Orlando Sanford in Florida. When TBI acquired Belfast International, "we were surprised that industrial development did not already exist", said Keith Brooks, chief executive of TBI. As well as a call centre

Plans for the first dedicated "call centre park" in Britain were unveiled yesterday by TBI, a property company based in Wales. The park will be part of a £100m (£169m) development at Belfast airport in Northern Ireland. TBI owns Belfast International airport, Cardiff International in Wales and Orlando Sanford in Florida. When TBI acquired Belfast International, "we were surprised that industrial development did not already exist", said Keith Brooks, chief executive of TBI. As well as a call centre

park, plans for the 144,000 sq m site include the first non-food factory outlet village in Northern Ireland.

TBI said there was "considerable identified demand" from the UK for call centres. The growing sector currently accounts for only 4 per cent of calls made compared with 40 per cent in the US.

TBI acquired Belfast International Airport in 1989 for £100m. It has since invested £2m in improving terminal facilities and has started building a £7m check-in hall.

David Trimble, Ulster Unionist leader, come amid growing concern about splits among republicans and a lack of progress at the talks.

Mr Ahern will use the discussion with Mr Trimble as a precursor to a planned meeting later tomorrow or on Friday with Tony Blair, the UK prime minister.

In their first bilateral talks since Mr Ahern's election

victory, Mr Trimble will make clear his party's dissatisfaction with what he sees as the Irish government's reluctance to renounce articles Two and Three of its constitution, expressing claims to the whole island of Ireland.

Recent proposals by Irish officials to change the wording were described last night by Trimble as "cosmetic".

With Mr Blair yesterday, Mr Trimble expressed his anxiety about recent statements by senior Sinn Féin figures, which cast doubt on their commitment to the peace process. Sinn Féin is the political wing of the Irish Republican Army.

Mr Trimble cited weekend comments by Francie Molloy, a Sinn Féin negotiator at a meeting of republican hardliners as further reason for Mr Blair not to receive Gerry Adams, Sinn Féin president.

However, aides of the prime minister appeared to confirm suggestions that a meeting with Mr Adams would take place soon: "It is generally accepted that Sinn Féin as a party to the talks will be treated just the same as other parties to the talks process."

Chemical industry agrees to cut fossil fuel use

By Leyla Boultton,
Environment Correspondent

The government yesterday unveiled a ground-breaking agreement with the chemical industry to help meet its ambitious target for combating climate change. In a voluntary pact with the government, the Chemical Industries Association committed the sector to a 20 per cent cut in fossil fuel consumption by 2005.

This is five years ahead of a government deadline for a 20 per cent cut in the nation's emissions of carbon dioxide, the chief greenhouse gas associated with global warming.

The government is refusing to disclose its strategy for implementing its domestic target until after international climate change negotiations next month in Kyoto.

Michael Meacher, environment minister, said: "Serious players in industry recognise that not only can significant energy savings be made but that it is in their own interests."

The agreement would lead to annual savings of between 0.5m tonnes and 1m tonnes of carbon dioxide compared with the 36m tonnes saving required by the government's target for the country as a whole.

Mr Meacher also warned the car industry that it might face the less palatable alternative of regulation unless it was more ambitious in negotiating with the European Union a voluntary agreement to promote more energy-efficient vehicles.

Meanwhile, John Prescott, deputy prime minister and chief environment minister, held out hope that any deal reached at Kyoto could survive big differences between the US and developing countries. The US Senate has warned it will not ratify any greenhouse gas reductions that are not mirrored by emission cuts for developing countries.

But Mr Prescott said the fact that the US would not have to submit an agreement for ratification to Congress for at least two years gave industrialised countries a "window of credibility" to persuade developing nations to follow suit.

"We need to show the colour of our money first," he said. Tomorrow he resumes efforts to help the US and Japan broker a deal by flying first to India and then New Zealand and Australia.

UK NEWS DIGEST

Liffe to move to new HQ in 2003

The London International Financial Futures and Options Exchange (Liffe) said yesterday that it aimed to move into its new headquarters near the City of London by the middle of 2003. The announcement came after planning permission for the building was given by Tower Hamlets borough council in the east London.

The exchange, however, has an option to sell the land back to the Corporation of London, the municipal authority for the City, if it decides not to go ahead with the project before 2002. The cost of the buildings would be between £150m (£255.5m) and £200m in addition to the £6m price of the land. Planning permission was delayed last month, when the government reviewed the project following complaints by local residents and small businesses.

Samer Iskandar

FILM INDUSTRY

US studio in theme park venture

Warner Bros, the Hollywood film studio, and United News & Media, the newspaper and broadcasting group, are considering sites in the English Midlands as possible locations for a Warner Bros Movie World film production studio and theme park.

The two companies, which already run successful Warner Bros Movie World complexes in Germany and Australia, have been searching for suitable locations in the UK for more than two years. Initially, Warner Bros executives were eager to ensure that the complex should be close to London and Heathrow airport - making the film production studio more attractive and convenient for Hollywood stars and production crews. They have since found few sites near London that are big enough to meet their requirements.

Alice Rauschorn

PUBLIC SECTOR BORROWING

Government repays \$9.6bn

The government was able to repay \$5.66bn (£9.56bn) of borrowing in October as buoyant consumer spending and business activity provided a silver lining to last week's cloud of higher inflation and a further rise in interest rates. Last month's surplus was £1bn higher than the £4.5bn repayment in October 1996.

October's surplus caused the Public Sector Borrowing Requirement to fall to just £2.6bn for the year to date, a substantial improvement on the

£11.2bn reached this time last year. With the UK economy operating at above-trend growth and headline unemployment falling to its lowest level in 17 years, Inland Revenue receipts soared by £16.4bn last month, an increase of £2bn compared with the previous year.

Richard Adams

PENSIONS MIS-SELLING

More sanctions on companies

Companies that fail to resolve their pensions mis-selling cases on time risk being excluded from involvement in the government's proposed "stakeholder" pensions for people in intermittent employment, the government announced yesterday.

Other sanctions would lead to individual directors being fined and expelled, companies having to advertise their misconduct, and - in extreme cases - companies being put out of business. The tough measures were outlined by Helen Liddell, economic secretary to the Treasury, in a new crackdown on laggards.

She called the debacle, which she said would cost the industry more than £2bn (£3.36bn) to clear up, "possibly the most extensive scandal ever seen in our financial services industry".

Christopher Brown-Humes

Rivals fear Blue Sky will herald a storm

BA's new low-cost airline may face EU competition inquiry

Blue Sky, British Airways' new low-cost airline, has flown into an industry squall before its aircraft have even begun to take off. Rivals fear that BA's new airline masks a plan to destroy them, and are preparing to call on Europe's competition authorities to investigate the matter. In particular, they want assurances that BA cannot cross-subsidise its offshoot.

Barbara Cassani, Blue Sky's chief executive, says her business case will be "squeaky clean". In any case, she adds, it makes better business sense to be separate from BA.

"We have a very independent stance. I am not turning to BA and saying 'Provide a service to me.' I'm in a different business, and anyway, I probably couldn't afford them," she says.

Quite what the airline can afford is still undisclosed, but some sketchy details have been released. Eight aircraft will be leased for the



Charis Gresser

Stock exchange plans price safeguards

By Jean Eagleham in London

The London Stock Exchange plans urgent action to stop small investors unwittingly buying and selling shares at "sucker prices" rather than reasonably competitive ones.

The problem stems from the exchange's electronic order book, introduced four weeks ago, which matches buy and sell orders auto-

matically, rather than dealing through marketmakers who quote prices.

However, few orders are being placed in the first hour of trading from 09h30. This causes wide spreads between buying and selling prices in the period when cheap execution-only stockbrokers, such as Sharelink and CityDeal, are executing orders placed the previous even-

ing or soon after opening.

The result is that investors buying or selling shares are losing up to 15 per cent compared with the prices they could have secured by doing the deal an hour or so later when order book prices have settled down.

The exchange aims to introduce a "special period rule" - from 09h30 to 10h30 London time - to allow execu-

tion-only brokers to delay dealing in a stock trading on an abnormally high spread rather than putting orders through irrespective of price.

"Brokers would not have a duty to wait [before dealing], because in some cases investors might get good deals [on wide spreads] but they would have to make it quite clear to clients that this option exists," said Martin Wheatley, head of markets development at the exchange.

Certainly Stansted, the airport from which Blue Sky will fly, will be cheaper and less congested than either Heathrow or Gatwick. Analysts reckon that turnaround at such regional airports as Stansted can be achieved in 20 mins compared with 45 mins at Heathrow. As Mrs Cassani says: "Aircraft are expensive assets to have sitting on the ground."

Some query whether a BA-owned business is up to the

Following the positive overall development in the first half of 1997, the VEBA Group was able to strengthen its upward trend in the third quarter.

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Sales from January through September of 1997 increased almost 10% to DM 60.7 billion year on year. Pretax income rose 11.2% to DM 2,795 million.

OUTLOOK

We are confident of being able to match the level of earnings growth achieved in the first nine months for the year as a whole.

Group Highlights

| | Jan. 1-Sep. 30 1996 | Jan. 1-Sep. 30 1997 | Change |
|-------------------------|-------------------------------|------------------------|--------|
| Sales | DM in millions | 55,310 | + 9.8% |
| Pretax Income | DM in millions | 2,913 | +11.2% |
| Consolidated Net Income | DM in millions | 1,227 | +12.5% |
| Investments | DM in millions | 3,890 | +12.8% |
| Personnel | (Dec. 31, 1996/Sep. 30, 1997) | 123,391 | + 5.4% |
| | | 130,068 | |

EARNINGS DEVELOPMENT

Earnings growth primarily stemmed from high growth rates posted by Oil and Trading/Transportation/Services. The Electricity Division once again matched the previous year's very high level of earnings. By contrast, Chemicals reported earnings markedly below the result posted a year earlier especially due to the sharp decline in operating earnings in the silicon wafer business. As anticipated, the Telecommunications Division closed the period with a loss.

For further information, please contact us for a copy of our Interim Report at VEBA AG, Corporate Communications, Bennigsemplatz 1, D-40474 Düsseldorf, Phone: +49-211-4579-600; Fax: +49-211-4579-532; Internet: www.veba.com

VEBA

Big property sale planned by Duke of Westminster

By Norma Cohen,
Property Correspondent

Grosvenor Estate Holdings, the property business of the Duke of Westminster and his family, is for the first time offering to sell a portfolio of properties located at some of London's grandest addresses in Belgravia and Mayfair.

The company, which is hoping to raise more than £20m (£34.5m) from the sale, says it intends to use the proceeds to further diversify its property holdings outside the UK, mainly in mainland Europe and South East Asia. Funds will also be used to refurbish some of the remaining properties.

Grosvenor said the company was selling "because we have got various ways in which we want to re-balance the portfolio". However, the company views its central London estate as the core of its property investments.

Grosvenor wants to expand its European property investments and plans to open an office in Paris where property is viewed as exhibiting the early stages of a recovery.

The asking price works out at £210 per square foot and Grosvenor is seeking a single buyer for the portfolio. The portfolio covers 18 property lots with 50 tenants producing an annual rental income of £3.47m. Three-quarters of the properties are in Mayfair with the remainder in Belgravia.

Some 237,000 square feet of property are up for sale and there is refurbishment potential for two vacant properties, one of which is at Berkeley Square, where quoted rents per square foot are about the highest in London. The other vacant property is located at Green Street.

Other properties for sale

Property company annual reports and accounts have improved greatly in recent years, our Property Correspondent writes, but still fall short of providing the information that shareholders most want to know, a leading UK institutional investor said yesterday.

Alastair Ross Gooley, chief executive of Hermes Pensions Management and the newly appointed chairman of the RIO Stay Award Property Accounts Awards Panel, made his remarks while announcing the 1997 award winners.

"Today investors like to know the structure of the income and borrowings within a company, and are less likely to be influenced by photographs of the most beautiful investments," he said.

Institutional investors, lenders and property company analysts have long been critical of sector accounts, partly because valuations have not occurred with sufficient frequency or independence.

are located in similarly prestigious addresses associated with the Duke of Westminster's traditional family holdings including Grosvenor Crescent, Grosvenor Gardens, Grosvenor Place and Grosvenor Street. Office properties predominate but there are significant retail and residential sites as well.

Just over half the properties are up for sale and there is refurbishment potential for two vacant properties, one of which is at Berkeley Square, where quoted rents per square foot are about the highest in London. The other vacant property is located at Green Street.

Other properties for sale

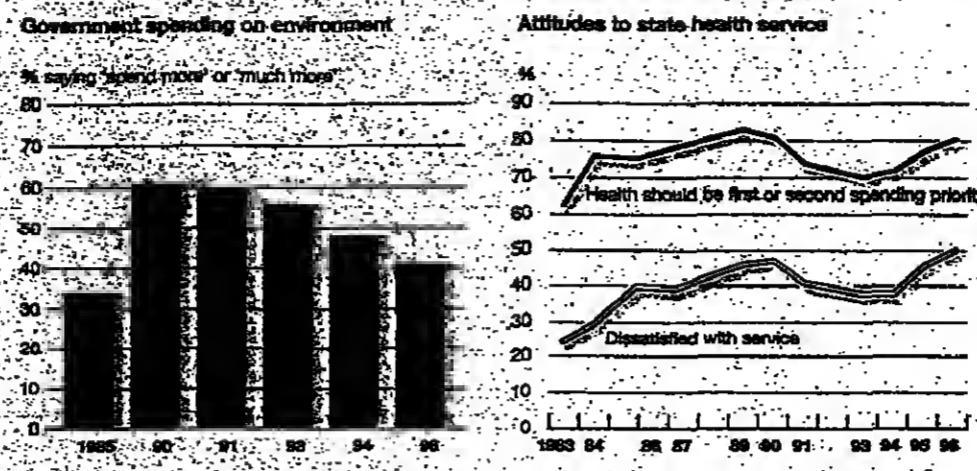
Social survey shows uncertain nation lacking faith in traditional political solutions

Snapshots of public opinion

Government spending on environment

% saying 'good' or 'much more'

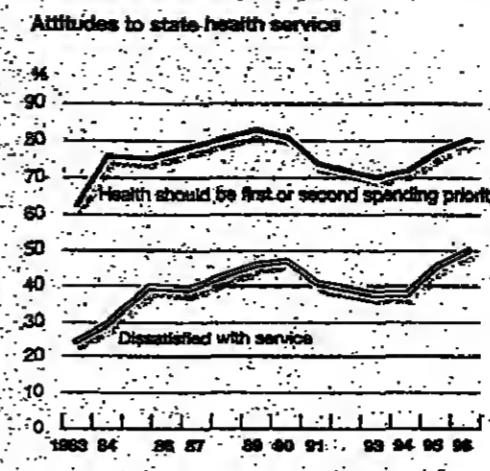
Source: 1997 British Social Attitudes Survey



Attitudes to state health service

% agreeing

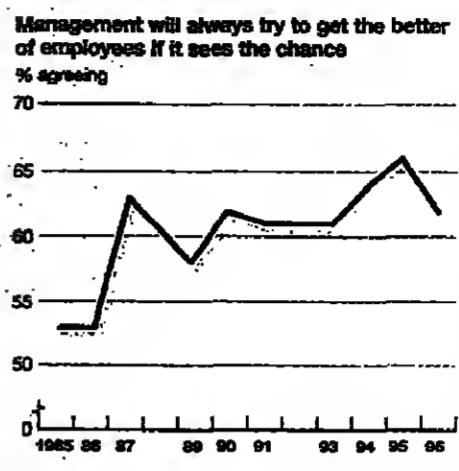
Source: 1997 British Social Attitudes Survey



Management will always try to get the better of employees if it sees the chance

% agreeing

Source: 1997 British Social Attitudes Survey



Thatcher legacy is found to be fading

By Simon Buckley,
Social Affairs Correspondent

The free-market values associated with Thatcherism seem to have had little lasting impact on the way Britons think and behave, this year's British Social Attitudes Survey shows. The report "finds little evidence that Thatcher's revolution ever took place".

The Conservative party was in power for 18 years until it was ousted by the Labour party in the May general election this year. Margaret Thatcher, now Baroness Thatcher, was prime minister for the first 11 of the 18 years.

The annual snapshot of how the British public see their world reveals an uncertain nation, lacking faith in traditional politics as a means to create a better quality of life.

The study suggests that people shifted noticeably over the 14 years in which the survey has been conducted. In 1982, almost two-thirds regarded it as "very important" but by 1996 that view was held by only one-third of the population. Significantly, only one in five people under

views of recent Conservative governments, which included widespread privatisation of state industries and reductions in the powers of trade unions.

In fact, 43 per cent of such people identify with Labour and only 23 per cent with the Conservatives. Further, 80 per cent of them believe the gap between rich and poor in Britain is too wide.

Labour party values are also shared by more of those growing up in the 1980s – 45 per cent against 25 per cent – and those maturing in the immediate post-war years – 40 per cent against 33 per cent. Conservative values seem to be most deeply rooted only among the pre-war generation, where they lead by 38 per cent against 35 per cent.

Attitudes to the monarchy have shifted noticeably over the 14 years in which the survey has been conducted. In 1982, almost two-thirds regarded it as "very important" but by 1996 that view was held by only one-third of the population. Significantly, only one in five people under

the age of 30 take this view. Compared with many other Europeans, Britons have "always been rather sceptical about the extent to which their political system is capable of delivering the goods", the study says. Yet since 1987, repeated surveys have observed this scepticism collapse into a lack of trust in politicians.

Today's survey argues that by 1996 fewer than one in four people trusted governments to put the national interest ahead of their party because of the experience of "political events such as sleaze". Last year, over a quarter of the population strongly agreed that political parties and MPs were out of touch with the needs of the electorate, an increase of more than 10 per cent in the past 10 years.

In spite of this collapse of trust in politicians, the study reveals "relatively high levels of self-confidence in ability to participate effectively in politics". Less than a quarter of people believe they have no say in what the government does – a very

similar level to that of ten years ago.

Frustration with traditional politics combined with a personal desire to make an impact on events,

the study suggests, are the classic conditions for unconventional political behaviour. For example, there is evidence of growing tolerance of road protests by environmentalists.

There is evidence throughout this year's report that people are anxious about the quality of their lives.

The primary public policy concern for the vast majority is health. There is a clear relationship between dissatisfaction with the state health service and willingness to invest more in it – even when people are told their taxes would have to rise to pay for it.

There seems to be a far greater reluctance to take action to protect the environment. For instance, the survey exposes the transport paradox that many individuals want fewer cars on the road, but only so

they themselves can drive in less congested and polluted traffic.

Evidence of worker discontent with workplace governance is hard to find. Only 20 per cent last year said their relations with management were "not very" or "not at all good" and 22 per cent that their workplace was "not well managed". On the other hand, 62 per cent believed "management will always try to get the better of employees if it gets the chance".

London upturn 'is greater than that of 1980s'

By Brian Groom in London

London is in the throes of a development upturn greater than that of the 1980s, with arts, heritage, sport and leisure projects worth £5.6bn (£9.46bn) planned or underway, according to a new survey.

London First, the business campaign group, says the total of investments has grown by 22 per cent, or £1bn, in just eight months since its last survey. Projects funded by money raised through the National Lottery account for £2.6bn of the total, while non-lottery investments add up to £2.5bn.

London First hones the fact that the developments are spread over a wider area and more sectors than in the 1980s will prevent the economy from overheating, but warns "in some areas, particularly where developments don't have their own unique selling point, it may mean high levels of bankruptcy when we encounter another downturn."

Launching the report, entitled London – The Millennium City II, Chris Smith, the chief culture minister, said: "London finds itself in an enviable position among cities. It has a wealth of creative talent, born of creative and social diversity, and a benign economic climate."

The report raises concerns. Some major projects have started before all the necessary funds have been secured, raising the possibility that London will be scarred with half-finished developments. Above all, the Underground railway is suffering from lack of funds and has a £1.2bn investment backlog.

Employees seek greater say in workplace

British workers want a greater say in their workplace, our Employment Editor writes. That desire is a response to what they see as a "deterioration in employment relations, managerial performance, job security and their involvement in decision-making", the survey says.

"Tackling these issues will require concerted effort and new thinking from the government in collabora-

tion with the trade unions and employers," it argues. The percentage of people believing that the unions have "too much power" have fallen from 54 per cent in 1985, the peak of Margaret Thatcher's reforms, to 15 per cent by 1996.

The study suggests unions "need to do more to pursue employees' demand for a greater say in the workplace" and this may have to be

achieved through the development of new consultative structures such as European-style works councils.

The survey found continuing strong employee commitment to work. Only 20 per cent of those surveyed agreed they would not bother to work if they received a reasonable income and two-thirds disagreed with the view that "work is just a means of earning a living".

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INFORMATION TECHNOLOGY

Nicholas Denton · Comdex report

Computers in disguise

Bill Gates, the chairman of Microsoft, may love his personal computer: he kicked off this week's Comdex computer trade show with a list of 10 reasons why he did. But with PC penetration stalled at about 42 per cent of US households, according to the latest study, the computer industry is morphing the form of its products in search of a broader market.

Hence some of the products that attracted the most interest in the cavernous halls of the annual Las Vegas computer fair: a network car, a television set with built-in internet access and a digital dictating machine among others. Each product relies on a personal computer either contained within or connected through a network.

The emergence of these products can be seen as the ultimate triumph of the PC over dumber appliances. However, even if these devices are part of the PC family, they bear little physical resemblance to their ancestor: the desktop computer which, operated largely by Microsoft's software, is so much the object of Mr Gates' affection.

Microsoft is well hedged against this development as well as unveiling an improved version of its Windows CE operating system for hand-held computers at Comdex, the company's WebTV subsidiary will this week begin selling a keenly-awaited device to bring internet access to television sets.

Meanwhile, new software from Microsoft called Hydra allows large server computers to co-ordinate the cheap terminals announced at Comdex by several manufacturers such Network Computing Devices.

Moreover, the challenge from the network computers backed by Microsoft's rival, Oracle - the lean internet terminals which were the focus of last year's Comdex - appears to have ebbed, judging by the paucity of exhibits this year.

And the desktop computer, the traditional bastion for Microsoft's software, continues to progress.

A company called Immersion, for instance, displays a new mouse that pushes back at users to give them the ability, not just to point and click, but to touch. Nevertheless, even as Microsoft's Windows software becomes the uncontested standard for operating the basic functions of desktop computers, new devices are appearing for which the operating system may not be suited. The best example is the personal organiser. Despite Microsoft's attempt to provide the standard operating system for these devices, the Palm Pilot from 3Com, which uses its own proprietary software, has outsold all the Windows CE devices combined by a ratio of two to one.

Another new category of PC emerged at this year's Comdex: what some call the ultra-ultra-portable, skinny laptops operated not by Windows but by Windows CE.

The PC has mutated in other ways too. International Business Machines, as well as launching a dictation machine with Olympus con-



Comdex theme: the PC must 'become more appliance-like'

figured to download recordings into its voice recognition application, unveiled what it called a "Network

Vehicle". The car, developed together with Delco Electronics, Netscape Communications and Sun Microsystems,

Touch-screen service

Australian shoppers visiting malls can arrange their mortgages, take life insurances, pay their credit card bills or even buy a house - all at the touch of a button.

A touch-screen system called Fastway, which the makers claim is the world's first multifunction electronic commerce system, has been launched with the installation of interactive terminals in shopping centres.

The terminals have been developed by Fastway Electronic Commerce, an Australian company that hopes to list its shares in Australia in January, followed by a Nasdaq listing later next year.

The touch-screen system offers products from financial services companies such as Macquarie Bank, American Express and New Zealand Insurance, as well as an estate agent.

A video facility allows users to talk directly with the companies by dialling via the screen and speaking through the attached telephone handset.

They can receive printouts such as pre-approvals for mortgages. The video link also allows, for example, prospective house buyers to look at the properties on offer onscreen.

The software, which uses 64-bit technology, took two-and-a-half years to develop and offers images of near-broadcast quality.



Information Technology
• The FT's review of Information Technology appears on the first Wednesday of each month.

Colin Hendrick, chief executive of Fastway, says such facilities give the system an advantage over the Internet. Downloading is almost instant and the service guarantees greater security and interaction. By placing the system in shopping malls, Fastway reaches beyond computer owners. "We see this as having more immediate access to the mass market than the Internet."

He foresees the system being able to sell entertainment tickets and hopes that a link with the Australian Stock Exchange will soon allow customers to trade shares.

The terminals have been on trial since February and Fastway plans to install 100 units at 31 sites across the country. It also proposes to install a network of about 500 terminals in the US in the next 18 months, and is holding talks about sites in Shanghai, Hong Kong and Kuala Lumpur.

Each terminal costs about

£340,000 (£16,383) in Australia. Fastway does not charge service providers for being included on the system, taking instead a percentage of the financial transactions that are conducted on it.

Other services to be added shortly include the facility to pay utility bills direct from bank accounts, credit cards or smartcards, car purchases and job searches through an appointments noticeboard. Mr Hendrick says the video conference facility will allow job seekers to have their interviews directly on the system. The system can also carry street directories and entertainment listings.

The company has experienced one teething problem - children.

School holidays and afternoons see the greatest number of nuisance calls, says Mr Hendrick.

However, he says: "While children are a problem, they are also our greatest advertisers."

Children playing on the system will tell their parents of everything it offers and point them towards it when they visit themself.

The security checks mean there is no danger of parents finding they are suddenly the owners of a five-bedroom house with swimming pool, he says.

Elizabeth Robinson

Millennium Watch · Ian Hugo

Grey compliance area

Bland assurances from IT suppliers can be dangerously misleading

All kinds of organisations are avidly seeking assurances of compliance from their IT suppliers, but many are laying themselves open to serious misunderstandings when they do so. Bland assurances of compliance can be downright dangerously misleading.

For instance, assurances of compliance have been given by some suppliers, generally electronically and thus ephemeral, and subsequently withdrawn. Even substantiated assurances are of limited relevance, as are compliance definitions.

The latter are as long as a piece of string. At one end is the idea that software is compliant if it can be used in a way that will not cause century date-change problems. It may, and probably does, have facilities within it that could make the software

non-compliant, but if businesses are aware of all the traps and avoid them they can use the software in a compliant manner.

At the other end is the notion that the software will actively prevent people using it in a way that causes compliance problems. Short of changing the code supplied, companies can set their most naive users and most creative programmers loose and still be safe.

Between these extremes there is a large grey area, and without further questions, it is impossible to know to which shade of grey any assurance of compliance applies. The usual defence against this is to resort to a definition of compliance, such as BS7000-1 from the UK's British Standards Institution. That is useful as a common basis for discussion but does not allow any inferences about use of the software; it cannot because potential uses are too various.

Businesses must understand this if they are to avoid making wrong assumptions on the basis of compliance claims.

Above all, they must not presume that compliance in

itself resolves all IT problems.

So, what should businesses do? The short answer is that they must understand precisely what the supplier means by compliance in the case of every piece of software and every platform they use.

A general definition is a good basis to start from but a lot more detail will be needed to sort out how affectively software and platforms, compliant to different definitions, will work together.

This work can only be done by a specifically contracted agency.

A good starting point, for those with access to the internet, is the [taskforce2000.co.uk](http://www.taskforce2000.co.uk) website, which includes information on compliance.

Ian Hugo is a member of the executive of Taskforce 2000 in the UK and editor of Millennium Watch, the newsletter which it sponsors.

Eagle Eye · Louise Kehoe

Microsoft moan

Individual PC users may well wonder if they will be winners or losers when all the shouting dies down

tems, accesses the internet through a satellite connection and projects maps and vehicle information indicators on to the windscreen.

And, in an address to the Comdex conference, Eckhard Pfeiffer, chief executive of computer manufacturer Compaq, described his vision of a home with electronic commerce devices in the kitchen, video-conferencing terminals and entertainment consoles in the living room, all tied together with a cheap but powerful "home server" computer.

Mr Pfeiffer said: "The PC is too complex and imposing for many consumers. For the market to keep growing, the PC has got to become more appliance-like."

The computer industry has engaged in earlier bouts of enthusiasm for information appliances and pen computers, notions which inspired ventures such as Diba and Go, without many products being realised.

The attention devoted to these variants of the PC may have something to do with the relative dearth of enhancements to desktop computers at Comdex, which has left commentators struggling in their annual task of defining the theme for the show this year.

Nevertheless, this confusion does itself suggest one possible conclusion. The personal computer, as it becomes truly ubiquitous, is splintering into a range of devices, mutating in some cases beyond recognition, which may help technophobic consumers to find, like Bill Gates, a few things to love.

If the Justice Department has its way, Microsoft might no longer be allowed to offer its Internet Explorer browser program as a free adjunct to Windows. Users may have to pay for the software and install it separately. It is difficult to see how this could be to the immediate benefit of consumers, but antitrust experts remind us that the principles of fair competition are at stake. Microsoft's tough tactics in the "browser wars" have taken the wind out of Netscape's sails and could eventually, perhaps, submerge the internet software pioneer. The Justice Department wants to preserve competition in these waters.

But, from the perspective of an individual PC user, Netscape is already taking a different tack. The company is focusing most of its efforts on users of corporate intranets and extranets, rather than consumers.

Contrary to popular opinion, Netscape's software is not free. Individual users must pay \$49 for the latest

joined forces to create a Network Vehicle of Tomorrow, displayed at the giant Comdex show in Las Vegas this week (see main article on this page).

The idea is to enable consumers to use their time better. Drivers can verbally request and listen to e-mail messages being read out loud. They can dictate memos and electronically distribute them, request sports scores or music or ask for directions to a specific location.

All this while keeping their eyes, if not their minds, on the road.

The car was a show stopper in Las Vegas, but it says more about the lifestyles of Silicon Valley techies than future market trends.

To find affordable housing, many of the region's engineers and programmers live long distances from their places of work. Most commute alone for an hour or more on increasingly congested highways. Being "offline" - or disconnected from the internet - is the biggest frustration they face while stuck in traffic.

The rest of us may be happy to while away our commute hours listening to a local radio station or making phone calls, but for true digital citizens it is painful to be disconnected for so long.

Their e-mail, I have to assume, is a lot more compelling than mine.

We all know what they say about statistics. Much of the data concerning the size and rate of growth of high-tech markets is, to put it politely, optimistic. Often, the groups publishing the figures have a vested interest in providing a positive view of a particular market segment. In other cases, industry studies use statistics selectively to prove a point.

In contrast, the American

Electronics Association's new Cybernation report, published this week (www.eae.org) takes a deliberately conservative approach.

"Our guiding principle was 'when in doubt, leave it out,'" says Bill Archey, president and chief executive. Thus products made in the overseas plants of US companies are not included in export data, nor are transfers of software to foreign customers over computer networks - although these are valid export sales, they are difficult to quantify.

For sure, the AEA has an agenda. The industry trade group believes that lawmakers and regulators are woefully ill-informed about the size and economic importance of high-tech. It has produced the Cybernation study to provide them with reliable and comprehensive industry data. The report is a mine of information useful to anyone with an interest in the industry or broad economic trends.

The study shows, for example, that the European Union is still by far the biggest export market for US high-tech producers, despite the industry's current obsession with Asian markets. The second-largest export market is Canada.

A few more AEA facts: the US high-tech industry was the single biggest industry in the US in 1996, based on factory shipments and services revenues. The US exported \$150bn in electronics products in 1996, making high-tech the country's leading goods exporter ahead of all types of transportation products - from cars to aircraft. High-tech exports nearly doubled between 1990 and 1996 from \$77bn to \$150bn.

Share your views in the Eagle Eye discussion group on the FT web site (www.FT.com) or contact Louise Kehoe by e-mail on louise@FT.com

Elsewhere in the world

people may be talking about the gyrations of the stock market, Asian currencies or the Middle East, but here in the Silicon Valley, Microsoft is topic number one.

is the "Redmond gang" a bunch of bullies who should be curbed by the US Justice

Department's antitrust squad or a "national treasure" that the government should leave well alone?

There is no middle ground in these debates. To Microsoft's competitors it is the evil empire, while Microsoft collaborators - and there are many of them, although they have been less vocal - see the world through rose-tinted windows. Amid all the rhetoric, one important constituency has had no voice. Individual personal computer users may well wonder if they will be winners or losers when all the shouting dies down.

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ARTS

Theatreland sports a different outlook

Brendan Lemon finds the theatres of 42nd Street are being modernised to offer visitors a better service – for a price

When the United States Tennis Federation opened its stadium in New York City, just in time for the US Open, the beauty of its retro-brick architecture was eclipsed by criticism about the luxury boxes occupying the facility's most coveted levels, forcing many long-time ticket holders out of their courtside locations.

But the grumbling died down quickly; the federation was merely following a familiar American sports trend in which team owners constructed amenity-laden enclaves to maximise profits.

In today's business parlance, this is known as product differentiation. You increase business not by raising prices and alienating the average consumer but by adding features

to attract the upper-income buyer – at a surcharge.

It is a wonder that the commercial theatre has never adopted such thinking. Except for the occasional show about felines or a phantom, profit margins in this sector of the entertainment business are notoriously small. Now, however, the concept of a luxury box is crossing over from America's sports to Shakespeare.

In December, *Ragtime: the Musical* begins performances at New York's new Ford Center for the Performing Arts – one of the grandest attempts to enlarge the Broadway theatre district by renovating the once glorious show palaces along 42nd Street. Fifty tickets a performance, at \$125 each, will be sold as "VIP suite service". (The average price for good seats on Broadway is about \$75). This service will include prime seats in the stalls

and the use of a private suite below the theatre's lobby, where ticket holders may leave coats, enjoy complimentary cocktails and use queue-free restrooms.

Garth Drabinsky, chairman of the theatre's Toronto-based developer Livent, has incorporated the concept successfully in some of his Canadian theatres. Early sales indicate it will be equally attractive in New York.

How to explain this rush for the royal enclosure? Some patrons, Mr Drabinsky answers, will always prefer to fly first class. They want an evening out that is "complete, from the moment they walk in to the moment they leave". The only reason, he continues, that the theatre has taken so long to learn from the sports world is that space limitations at Broadway houses, many of which were built a century ago,

have prevented the provision of a pampered environment.

Why, then, have other companies renovating 42nd Street theatres decided not to embrace the concept? "The reasoning is partly philosophical," says Chris Boneau, of the New Amsterdam Theatre which recently reopened after a renovation by its owner Disney. It will soon begin performances of its first fully-fledged stage show, a live version of *The Lion King*. "It is dangerous to create a perception of theatre as something elitist, like opera," Mr Boneau adds.

"Such an image puts a lot more pressure on a show to be life-changing rather than merely enjoyable."

Others, however, have argued that Broadway ticket prices have long been out of reach to the average citizen. They say the advent of VIP services, like the

private suites available to valued patrons of many opera houses, only confirms that fact. And aren't those who question privileged service often the first to praise it when they, too, have a chance to nibble caviar behind gilded doors?

The issue here isn't private suites at 42nd Street theatres but what that says about the changes in the neighbourhood as a whole," says Hal Rubinstein, a New York magazine columnist and Gotham "trendspotter".

"Everything in the neighbourhood has become corporatised. Instead of vintage clothing stores you have the Gap; instead of irreplaceable second-hand music sellers you have the Virgin megastore; and instead of slightly dubious peep shows, which at least provided cheap thrills that a businessman couldn't find in the heartland, you have theatres named after

the Ford Motor Company. Times Square has become an American shopping mall. All it lacks is a roof."

But one could just as easily argue that, by cleaning up Times Square, New York is only trying to redefine itself the way other northern American cities have: by attracting visitors from all bands of the economic spectrum. If the American city has become a theme park it is only because it has a vital stake in ensuring that tourist dollars do not flow exclusively to more established entertainment centres in Florida or California.

There is still variety behind all the flash of New York neon. 42nd Street continues to offer lots of inexpensive, adventurous fare. Down from the Ford, for instance, the Selwyn Theatre

will soon be the base for the Roundabout, one of Manhattan's best classical companies. A little further along the invaluable and very serious Signature troupe has at last found a home.

There is a range of ticket prices, too. Value-seekers may rely on the half-price ticket booth in Times Square, and the extravagant may ring up their favourite ticket broker. In spite of predictions that the VIP concept will cut into the latter's livelihood, brokers are not about to fold.

For the VIP service, a company must set things up in advance." Mr Boneau says. "But if you're coming into New York on unexpected business and want premium tickets to that new musical, the broker may still be your only solution. And a broker's price for tickets may make the VIP rate seem positively a bargain."

Opera/Richard Fairman

Otello and friends

The next stop for the wandering minstrels of the Royal Opera is London's Royal Albert Hall for a one-week season. There are to be five fully-staged performances of Verdi's *Otello* with alternating casts, and two gala concerts.

Otello was a good opera to pick. There is a lofty grandeur to it that aspires to a hall of this size and the Royal Opera's very traditional production by Elijah Moshinsky looked magnificent. It cannot be easy trying to replicate sophisticated lighting with limited facilities, but the result was impressive – even down to *Otello*'s invocation of the stars, for which spotlights turned the hall's flying saucers a rather lurid purple.

The Royal Opera has wisely elected to play this production on a specially constructed stage with a makeshift pit rather than in the round, but the acoustic still plays funny tricks. Both at the opening night of *Otello* on Monday and the first of the gala concerts the conductor, Jacques Delacôte, had to expend a lot of effort just to keep the orchestra together. Was it under-rehearsed or could they not bear each other? I am inclined to allow them the benefit of the doubt, as Delacôte gave a sleek and swift performance. It was not his fault that most of the orchestral detail was swallowed up.

Like the previous in-house productions, this one used microphones and from my seat, the sound system left the singers wringing hands down. Vladimir Bogachov, the *Otello*, has a strong voice anyway and here his throaty Russian tenor roared mightily. He can shape a nice vocal line, but not as often as one would like. The soft singing slipped into a croon and at the big moments he shouted.

Daniela Dessì's Desdemona was sensitive and alive to the words. But Verdi wanted vocal beauty in this role, and that her edgy

soprano cannot supply. Sergey Leiferkus is a known quantity as Iago and his insinuating slinking seat even more shivers down the spine than usual. Bonaventura Bottone was an able Cassio and Andrea Silvestrelli a booming Lodovico. After the cut-price tat we have been served before at the Royal Albert Hall, this ranks as the first serious attempt at opera for the masses.

The gala concert was advertised as a "night with the stars", which was testing the description rather. What we had was not so much any stars of today as an intriguing mixture of "could-bees" and "has-beens". Among the former, the Greek-German soprano Irene Carl will have alerted talent-spotters with her beautiful, well-produced, even voice. Even without trills, her arias from *Il trovatore* and *Anna Bolena* had a grace and amplitude of vocal means that should distinguish her from the pack. The Bulgarian Zvezelina Vassileva spun a fine line in her lighter soprano arias. A couple of the more established names wrestled with frogs in their throats, but Rosalind Plowright defied her doubters with a largely trouble-free and imposing extract from Sootin's *La Vestale*.

It was a shame there could not have been more ensembles. It was only at the end that a defiant Agnes Baltsa and the young teoor José Cura set the sparks flying with their fiery duet from *Concierto rustico*. Having already won friends by taking on extra slots on behalf of indisposed colleagues, the charismatic Cura sang with a proud passion that carried off the evening single-handedly. In the star stakes, he is definitely a "will-be".

Performances of *Otello* daily at the Royal Albert Hall, London SW7 until Saturday, except for Thursday, which is the second gala concert.

Musical

The Lion conquers Broadway

Musical

When Disney announced last year that it had hired the avant-garde director Julie Taymor to direct its New York stage adaptation of the titanically successful animated film musical *The Lion King*, many heads were scratched, writes Brendan Lemon. What could a woman who had spent years in Bali studying puppetry and dance, and whose only previous Broadway production had been a "carnival Mass", bring to a cartoon that had generated \$1bn in worldwide revenue in large part because of the cheery pop of its Elton John-Tim Rice score? To protect its investment, wouldn't Disney force Taymor to turn out something on the order of the theme-park staging that the company had produced in its only previous movie-to-musical adaptation.

Beauty and the Beast? Well, *The Lion King* has just had its New York opening, and those who seriously doubted Taymor's intention to maintain her artistic integrity under corporate pressure have now zipped their lips. Her mask-and-puppet laden production is an absolute triumph of visual imagination – so moving, colourful, and elaborate that every other show in town suddenly looks grossly inauthentic.

Taymor's main task here was to make *The Lion King* a legitimate live theatre event, not merely a duplication of the film. She has kept the movie's basic story – the young lion prince

Simba loses his father, Mufasa; spends years in exile as his evil uncle, Scar, ravages the kingdom, and returns to resume his place as enlightened monarch – but has added deeper social and psychological resonances. The teenage Nala's role has been enlarged, giving her a redemptive struggle almost as important as Simba's. Rafiki, the shaman baboon, undergoes a successful sex change (male to female). And Uncle Scar becomes an even more majestically evil, fascist aesthete.

Taymor's most difficult assignment, and the one in which she has not been wholly happy, involves the

show's music. The best known numbers, the thematic "Circle of Life" and the embarrassingly affecting "Can you Feel the Love Tonight?" have been beautifully staged, and the music pinched from the movie's related album, *Rhythms of the Pride Lands*, is powerful in its Zulu text and South African choral harmonies, but John and Rice's new songs are for the most part uninspired. Scar's patter number, "Be Prepared", is particularly dull in its Gilbert-and-Sullivan mannerisms.

But, strange to say for a musical, the song weaknesses are immaterial. Pagentry is the point here, and Taymor delivers visual coup

after visual coup. The open processing up the aisles of the recently restored New Amsterdam Theatre offers more animals than the Ark. A giant gold mask comes together out of what seems to be shadows. A stampede of wildebeest is conveyed by means it would be criminal to reveal. And just when you think Taymor and her designers (sets, Richard Hudson; lighting, Donald Holdfar) have exhausted themselves, an unexpected combination of colour – bright orange, jungle red – brings tears to the eye. As if aware that the profusion of bold tints might prove too blinding, one of the comic characters says that the set

"looks like a shower curtain from the Guggenheim." (The show's book writers, Roger Allers and Irene Mecchi, are not afraid of self-deprecation.)

Although many *Lion King* cast members are required to operate ingeniously constructed puppets, they themselves are not mere puppets of their director's vision. Jason Raize (Simba) and Heather Headley (Nala) give especially rich characterisations, aided by the vocal arrangements of Lebo M and the erotic (at least for Disney) choreography of Garth Fagan. But the evening belongs to its director. Through a miraculous alchemy of ingredients, she has made a musical that appeals to both children and adults, and that satisfies both lovers and batters of Broadway musicals.

New Amsterdam Theatre, New York.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

OPERA
Het Muziektheater
Tel: 31-20-651 8911
Così Fan Tutte: by Mozart.
Netherlands Opera production,
conducted by Ivor Bolton in a
staging by Jürgen Flimm, with an
entirely new cast; Nov 21, 24

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Aida: by Verdi. Staged by Götz Friedrich, with sets and
costumes by Pet Halman; Nov 22

COPENHAGEN

EXHIBITIONS
Louisiana Museum of Modern
Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
Alberto Savinio, Paintings
1927-1952: around 30 still lifes,
landscapes and mythological

compositions by the relatively unknown brother of da Chirico. His work combines abstract and figurative elements, and in many ways parallels de Chirico's own; to Jan 11

HOUSTON

EXHIBITIONS
Museum of Fine Arts, Houston
Tel: 1-713-639 7750
The Dark Mirror: Picasso,
Photography and Painting. More
than 300 works, the majority of
them photographs, which will
illustrate the relationship between
the various media in which
Picasso worked. The display
includes studies of works in
progress, self-portraits, and
photographs of Rousseau and
Braque. The exhibition has been
seen in Paris and will travel to
Japan to Feb 1

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● The Sibelius Cycle: Sir Colin
Davis conducts the London
Symphony Orchestra in a
programme including Symphony
No. 3 and Symphony No. 4;
Nov 20
● The Sibelius Cycle: Sir Colin
Davis conducts the London
Symphony Orchestra in a
programme including Symphony
No. 5. With soprano Katarina
Dalayman; Nov 23

THEATRE
Dorothy Chandler Pavilion
Tel: 1-213-972 8001
Los Angeles Philharmonic:
conducted by Paavo Järvi in
works by Tüür, Mozart and

Tel: 44-171-632 8300
● Falstaff: by Verdi. This
co-production with Opera North,
first seen in Leeds, is conducted by
Matthew Warchus. Cast includes
Alan Opie in the title role; Nov
19, 21, 24

● The Magic Flute: by Mozart.
Nicholas Hytner's English
National Opera production,
revived by David Ritch and
conducted by Christopher
Moulds; Nov 20, 22

Royal Albert Hall
Tel: 44-171-5892212
The Royal Opera: Chello, by
Verdi. Conducted by Jacques
Delacôte in a staging by Elijah
Moshinsky; Nov 19, 21, 22

Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: Il barbiere di
Siviglia: by Rossini. New
production staged by Nigel
Lowery; Nov 24

SHAKESPEARE
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Wordplay: show exploring the
relationship of fashion to
self-expression in language; to
Nov 23

LOS ANGELES
CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-972 8001
Los Angeles Philharmonic:
conducted by Paavo Järvi in
works by Tüür, Mozart and

Mahler; Nov 21, 22, 23

OPERA
L.A. Opera, Dorothy Chandler
Pavilion
Tel: 1-213-972 8001
www.lopera.org
Countess Manzetta: by Kálmán.
Premiered in Santa Fe this
summer, this lively production by
Linda Brynner stars Ashley
Putnam and is conducted by
John Crosby; Nov 22

MADRID
OPERA
Teatro Real
Tel: 34-516 0800
La Monnaie: touring production
of Britten's Peter Grimes.
Conducted by Antonio Pappano
in a staging by Willy Decker; Nov
20, 22, 23

NEW YORK
EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Wordplay: show exploring the
relationship of fashion to
self-expression in language; to
Nov 23

OPERA
Metropolitan Opera, Lincoln
Center
Tel: 212-362 8000
www.metopera.org
● Don Giovanni: by Mozart.
Production by Franco Zeffirelli;
Nov 21

● The Rake's Progress: by
Stravinsky. New production by
Jonathan Miller, conducted by
James Levine. Cast includes
Dawn Upshaw and Samuel
Ramey; Nov 20, 24

James Levine. Cast includes
Dawn Upshaw and Samuel
Ramey; Nov 20, 24

NEW YORK CITY OPERA, New
York State Theater
Tel: 1-212-870 5570
www.nycopera.com
● La Bohème: by Puccini. New
York City Opera. Conducted by
George Manahan and staged by
Grazia Scutellà; Nov 20, 21,

22, 23
● Marco Polo: by Tan Dun,
premiered in Munich last year.
New production by the New York
City Opera conducted by the
composer and directed by
Martha Clarke; Nov 19, 22

PARIS
DANCE
Opéra National de Paris, Palais
Garnier
Tel: 33-1-43439696
Paris Opera Ballet: mixed
programme – Soir de l'île by
Staats, L'Arlesienne by Petit, and
La Symphonie fantastique by
Massine; Nov 19, 21

OPERA
Musée Carnavalet
Tel: 33-1-4272 2112
Paris and the Parisians in the
time of Louis XIV: more than 300
engravings, which together
create a vivid impression of 17th
century Paris; to Jan 18

OPERA
Opéra National de Paris, Opéra
Bastille
Tel: 33-1-4473 1300
Der Rosenkavalier: by Strauss.
New production conducted by
James Levine. Cast includes
Dawn Upshaw and Samuel
Ramey; Nov 23

EDO DE WAART in a staging by
Herbert Wernicka. Cast includes
Renée Fleming, Susan Graham
and Barbara Bonney; Nov 20, 23

SAN FRANCISCO

OPERA
San Francisco Opera, War
Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
● La Bohème: by Puccini. New<br

COMMENT & ANALYSIS

Russia's most important industry is up for sale. So desperate is the country for investment capital that it has taken a step many thought might never come: to open up its oil and gas sector to foreign investment. Exactly how open, however, is another matter.

On the face of it, the gates are wide open with a welcome mat in front. In a move that took westerners by surprise, Boris Yeltsin, the Russian president, this month signed a decree allowing foreigners to buy 100 per cent of Russian oil companies.

Foreigners have wasted little time. Within days it emerged that Royal Dutch/Shell had teamed up with Gazprom, Russia's giant gas monopoly, to bid for Rosneft, the last big state oil group to be privatised. Yesterday, British Petroleum signed a deal to buy 10 per cent of Sidoarjo, giving it a stake in a vast gas field near the Chinese border. These are among the largest foreign direct investments Russian has received.

Brunswick, a Moscow-based brokerage, estimates that the government could raise \$20bn (£12bn) through the sale of state assets by the end of 1998, with large chunks coming from foreign investors - especially in oil.

But two questions remain: will foreign investors will be allowed to run their businesses free from state meddling? And which investments are likely to prove most successful?

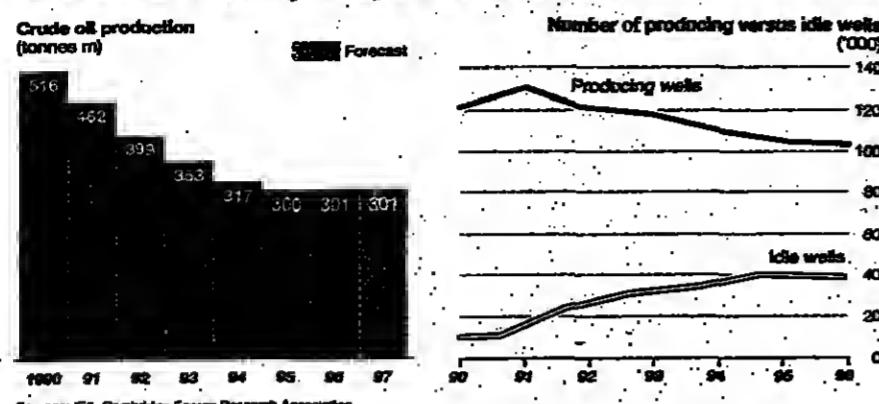
In the eyes of western oil companies, the benefits of foreign investment are self-evident. Russian oil output has plummeted since the collapse of the Soviet Union from 669m tonnes in 1988 to 306m tonnes last year. The industry badly needs new investment into its decaying infrastructure, but few Russian companies have the clout to raise large sums.

Although Russian companies have begun to tap international capital markets, they still face severe constraints, particularly after the financial fallout from the south-east Asian crisis. Gazprom this month received a \$3bn loan from a syndicate of international banks, but has had to postpone an additional \$1bn convertible bond. So foreign direct investment is likely to remain vital for

The beginning of Russia's oil rush

Oilmens are heading for the final frontier, say John Thornhill and Robert Corzine

Russia's oil industry: desperate for dollars



Sources: IEA, Cambridge Energy Research Association

many years. Russia hardly provides an easy investment climate. But it has huge attractions for western oil companies, namely several large undeveloped fields of a size rarely found in spite of the billions of dollars spent annually on worldwide exploration.

In a report prepared for the Russian parliament, western oil companies said the foreign development of just six identified oil and gas fields could produce enormous economic benefits. These projects would earn about \$450m over their operating lives, creating more than 550,000 jobs.

But before they are prepared to make large-scale investments in production, western companies say they need stronger legal and tax guarantees. Their preferred method of operation would be to sign internationally recognisable production-sharing agreements (PSAs), which leave ownership of natural resources with the state but allow foreign developers a defined share of future revenues.

Although the Russian government has tried to enact such agreements, the Communist-dominated parliament has resisted. So far, it has only approved a shortlist of production-sharing projects and has failed to adopt the legislation necessary to make them work.

The appointment of a reformer, Boris Nemtsov, as first deputy prime minister and energy minister in the spring, has given renewed impetus to the legislative process as he has tried to entice foreign companies into Russia.

"I think it is only a question of time before we see a legislative framework in Russia that works well for all kinds of investors," says the head of the Moscow office of a European oil company. "Production-sharing agreements are now a reality in Russia even though progress still needs to be made on the enabling legislation."

But is the news really that good? Some industry experts think not. Such views, they claim, are naive. They reckon western companies are deceiving themselves if they expect business in Russia to be driven by international legal norms.

Yevgeny Khartukov, general director of the Moscow-based International Centre for Petroleum Business Studies, wonders why western companies should place so much emphasis on production-sharing agreements (which may never fully materialise) and make so little effort to understand Russia's business culture.

Foreign oil executives tend to respond that dozens of old-fashioned joint ventures are struggling to make a financial return, highlighting the dangers of operating without a strong legal framework. Besides, they say, it is

far from clear how many Russian companies want to work with foreign operators.

Even ignoring nationalistic concerns, many Russians view the international energy giants as future competitors and are not keen to give them access to the country's vast reserves.

"In the field of oil production, Russian oilmen are some of the best in the world," says one oil industry boss. "Our problem is in exploiting undersea reserves. But when it comes to working on land our experience is probably greater than anywhere else. Why do we need foreign partners?"

Stan Baird, chairman and chief executive of Schlumberger, the Franco-American oil services group, believes Russian reluctance to team up with western equity partners offers an opportunity to companies like his. Russian companies will have to import more technology, he says. "They will not be able to last much longer without a massive increase in efficiency."

Schlumberger intends to make a big commitment to Russia, which Mr Baird says could eventually rival the US as its largest market. "After years of frustration... there are signs that Russia is beginning to see the value of buying high technology oilfield services," he says.

All this suggests there is plenty of opportunity in Russia for foreigners. But pursuing upstream oil projects will continue to be a fraught affair. Direct investments are only ever likely to flourish in offshore areas such as Sakhalin in Russia's far east, where there is a supportive local administration, high technical demands and massive investment needs. Elsewhere, foreign investors may come to the conclusion - as Shell and BP appear to have done - that it makes more sense to invest alongside a local partner.

One thing is clear: Russian oil companies will not be able to rest on their laurels. Reforms in government believe local companies must be compelled to "use or lose" the assets so haphazardly distributed during earlier privatisations. For foreign oil companies with deep pockets - and even deeper reserves of patience and ingenuity - this could be the time to strike.

Europe's dangerous monetary experiment



Richard Lambert

The US does not think much of the planned single currency

The US is waking up to the reality of European economic and monetary union - and does not much like what it sees. What in Europe looks like a bold political adventure appears in the US as a dangerous economic experiment. Pestilence and famine are on the agenda.

Even in Washington have come to recognise that monetary union is near enough a political certainty, so their public statements are polite, even welcoming. Their private views are sometimes another matter.

Why does the prospect look so bleak from the western side of the Atlantic? There are two obvious answers.

The first is that New York

American observers tend to overstate its problems. They see only an over-regulated business sector, inflexible labour markets, unaffordable social programmes, and high unemployment. They tend to write the French off as a bunch of hopeless socialists, and they often don't recognise the real changes that are taking place in Germany at plant and company level. They can't believe that Italy and Spain will even be allowed to join the party, or that there is much real popular support for a single currency.

From this stems their view that the European system will be unable to cope with a localised economic shock. Workers will be unwilling or unable to travel around Europe for opportunities. On the evidence, they don't move from Yorkshire to London, let alone to Frankfurt. With no room for monetary manoeuvre and their fiscal freedom curtailed, tensions between countries will rise - and the European Union will be held responsible.

And, from a distance, the motives driving Europe's leaders forward seem both obscure and overly complicated. Everyone seems up to crazy dodes, as in France's recent attempt to have its man appointed to the top of the new European Central Bank. Until recently, they have had very different views about the proper role of monetary policy.

The second explanation is that the US has its own experience of what makes a single currency work - and none of the most relevant features apply in Europe.

Millions of workers cross state lines in the US each year. If the defence industry takes a hit in southern California, displaced workers hop in their truck to Colorado, or wherever else work is to be found.

The US can transfer federal resources to cities and regions affected by economic downturns through a well-established system of automatic stabilisers and discretionary programmes. It has a tried-and-tested central bank with a credible record and a political counterpart in Washington. Alan Greenspan, the chairman of the Federal Reserve, has considerable independence, but he cannot ignore Congress.

Others are almost as gloomy. Henry Kaufman, the Wall Street economist, was arguing the other day that localised recessions would be all but inevitable under the system. Financial markets would question whether the country involved would stay in the system, or seek to re-establish its own currency. He thinks that the early years of the experiment will be especially volatile and dangerous.

From that point, it's not too large a leap towards the growth of economic and political nationalism - and to that ultimate of all ironies: a system that was designed to unite Europe ends up by blowing it apart.

An idea intended to bring down the last remaining barriers to trade has precisely the opposite effect.

Good Europeans do not have to swallow all this gloom.

They can point to signs of economic recovery around the continent, and the hope that a period of sustained growth would make the problems look a lot more manageable. They can argue that the pressures of the union will force through needed labour market reforms; these will simply be no alternative.

But it is quite a hard case to make. And it is difficult to shake off this sneaking feeling: if it were not for the fact that the Europeans who are opposed to EMU are mostly so frightened, you would begin to harbour a few doubts yourself.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Translation may be available for letters written in the main international languages.

'Cherry picking' strategy also a factor behind fast-track failure

From Mr Simon J. Everett.

Sir, The failure to pass fast-track legislation was not solely due to flawed political strategy, as suggested by your editorial "Bill Clinton sidetracked" (November 11). For the last 15 years US administration officials have argued that the only way to save multilateral trading arrangements was to sign regional and sectoral arrangements with selected trading partners. Evidently

this "cherry-picking" strategy has failed to cobble together a large enough coalition to support further trade liberalisation. Of course, this strategy cut no ice with those industries and interests that are not well connected enough to be deemed "strategic", whatever that means.

The one consolation of this debacle is that US trade policymakers have three years before the installation

of a new administration to refine a feasible multilateral trade strategy, which can be credibly sold as being in the interests of all Americans.

Simon J. Everett, moderator, Brookings-George Mason Roundtable on Trade and Investment Policy, 1776 Massachusetts Avenue, NW, Washington DC 20036-2186, US

Gold best investment over the long term

From Mr Robert Pringle.

Sir, It is wrong for Lex to say ("Gold", November 15-16) the Dutch, the Australians and the Swiss central banks see gold as "a pretty useless investment".

None of these central banks takes that view. The Dutch sold some of their gold for Euro-related reasons and the Australians because they think, rather naively, that reserves in the ground are adequate substitutes for some of their above-ground stocks.

The Swiss, who have not sold one ounce of gold, have recently reaffirmed the key role of gold in their reserves. Gold, said the recent report of an official working party, with representatives from the ministry of finance and Swiss National Bank, is seen as "the only asset that keeps its (real) value over the centuries". The referendum needed to allow some limited sales of gold to finance the proposed Solidarity Fund will probably not take place until 2000 or later, and may well not pass.

As regards the calculation that the top 12 central banks lose \$15bn a year in interest foregone by holding gold, this takes no account of the possible capital loss on alternative investments (for example, US Treasury bonds). As Lex should know, government bonds have been poor investments for many investors this century.

A calculation of average total annual returns for a dollar investor from buying in any given year and selling in any (randomly chosen) subsequent year between 1899 and 1996 demonstrates that gold has outperformed both long- and short-term US government bonds.

Robert Pringle, head, Centre for Public Policy Studies, World Gold Council, Kings House, 10 Haymarket, London SW1Y 4SP, UK

People's right to donate anonymously

From Sir Geoffrey Pattle.

Sir, In the future over the Ecclesstone donation to the Labour party, one point is in danger of being overlooked, and that is the right that UK citizens should have to donate money or, indeed, anything else, anonymously for their own good reasons.

How, then, can the appetite for total transparency be reconciled with the right to

make anonymous donations even to political parties? One way would be to establish a commission, reporting to Sir Patrick Neill, chairman of the Commons standards committee, which would receive notification of donations to political parties over a certain amount and could then be put on notice to look for links to future government decisions. The

information would, however, have to remain confidential in the government system and not be shared or made available among political parties in order for the anonymity principle to be respected.

Geoffrey Pattle, The Manor House, Dunton, Peterborough, West Sussex GU26 6JY, UK

First off the blocks

From Mr Peter Brown.

Sir, The systematic mass production of manufactured goods predates the Springfield Armory's production of wooden gunstocks in 1819, discussed in Pete Martin's article "Thinking along the same lines" (November 13). In 1808, plant for the manufacture of wooden pulley-blocks for the Royal Navy started operation at Portsmouth. Output was 180,000 blocks a year produced by 10 unskilled men doing the work of 120 skilled men. The Admiralty saved £17,000 a year for a capital outlay of £54,000. The 44 machine tools installed were designed by Marc Brunel and made by Henry Maudslay.

Peter Brown, "Rivendell", The Hollow, Winton-on-Sea, Great Yarmouth, UK

Facing nuclear realities

From Mr Nils-Axel Mörner.

Sir, It is always a pleasure to read your well written and careful analyses of various topics. This was the case with your nuclear power survey (November 14). As a scientist specialising both on nuclear waste problems and on climatic changes, I would like to add a few points.

Nuclear waste problems are by no means solved. The more waste we produce, the larger will be our problems of handling it in the near future. Instead of a "final solution", we need some sort of temporary solution where control and freedom of action are guaranteed.

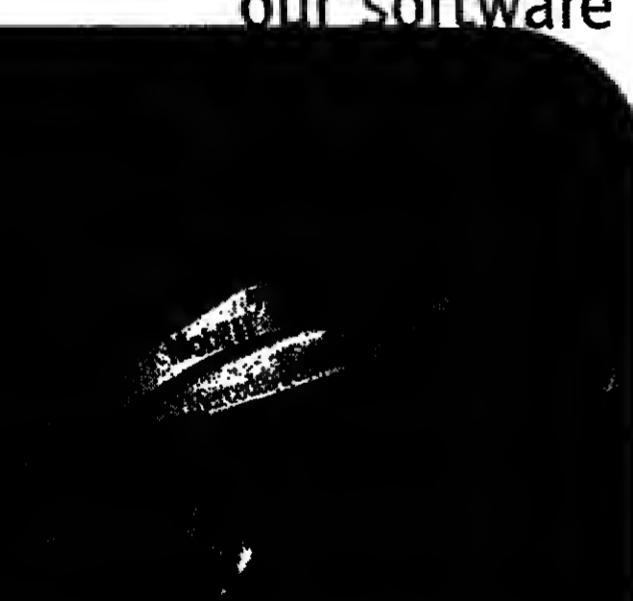
In your survey, you mentioned the Three Mile Island and Chernobyl accidents. There are, unfortunately, many reasons to expect that we will experience several new accidents in the near future. As pointed out by Kjell-Olof Felt, our former energy minister, it will not

be popular to talk about nuclear power in such a situation. It seems to me that our decision-makers are not prepared for this - probably unavoidable - situation.

Finally, much is said about the greenhouse effect and global warming. But how realistic is its concept? Much is written in support of this idea, but it is really firmly anchored on scientific knowledge? I suggest not. I believe the global warming "bubble" is likely to collapse in the near future. Whatever opinion one may have on this question, there is an urgent need for our decision-makers to prepare for when the currently popular global warming concept is no longer tenable.

Nils-Axel Mörner, head, paleogeophysics and geodynamics, Stockholm University, S-10691 Stockholm, Sweden

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FINANCIAL TIMES

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Wednesday November 19 1997

Off with their heads!

The court of Boris Yeltsin bears ever more resemblance to the Tsarist courts of old. Favourites clamour and bicker for the ear of the sovereign. Reputations laboriously built over years can be undone in a night. The most unlikely alliances are stitched together out of venal self-interest, and come unstitched with equal unpredictability. But the monarch rules supreme.

Thus it would appear to be today. A bare two weeks ago, Boris Berezovsky, oil salesman turned rouble billionaire, was unceremoniously sacked from his post of deputy secretary of the president's Security Council. It was an unlikely post for a businessman, but one he owed to his part in the alliance of bankers and reformers which ensured President Yeltsin's re-election last year. But he fell out with Anatoly Chubais, the mastermind of the election campaign, and paid the price.

Now it is Mr Chubais' turn, and Mr Berezovsky's chance for revenge. The deputy premier has seen three of his closest allies sacked from the Kremlin and the Russian government in as many days, and his own position become extremely precarious. All are accused of accepting lucrative advances from a book publisher, owned by Oneximbank, the Russian financial group which defeated Mr Berezovsky in recent privatisation battles. Mr Yeltsin has decided their conduct was "impermissible".

Euro-shuffle

The proposed merger between the German insurance giant Allianz and French insurer AGF is being tilted as a preparatory move for the euro and the single market. No doubt other moves in European financial services will be justified on similar grounds. Yet past experience suggests room for scepticism about such mega-deals. Could it be that the dinosaurs of the industry are bulldozing together for comfort as a tide of liberalisation and new technology undermines traditional ways of doing business?

There are, of course, circumstances in which cross-border mergers will make sense. In financial services the euro will transform capital markets. Asset allocation will be done on a pan-Euro basis and it will be possible to match pension liabilities with assets from anywhere within the monetary union without incurring exchange risk. There will thus be synergies in fund management.

Euro-induced price transparency will also add to pressures for consolidation in banking and insurance. Yet cross-border deals are not necessarily the best way to restructure. Surplus capacity in banking, for example, offers cost-cutting opportunities chiefly on a domestic basis since foreign acquirers have few overlapping branches.

In insurance, meantime, most retail business is purely domes-

tic. Standardised products such as motor insurance may lead themselves to genuine cross-border economies of scope and scale. Demand for life assurance, by contrast, is driven by national tax breaks, while distribution is subject to varying regulatory arrangements.

There is room for efficient suppliers to compete out of existence some very costly, low-return European insurance and pensions products. But this is more likely to come through competition in the market place than via bids and deals.

A more active market in corporate control now provides great opportunities for managers to feather their nests. Size provides a defence against hostile takeovers, yet size-driven deals can readily be justified with vainglorious banality: critical euro-mass. A cross-border merger may offer an easy escape from competition policy problems at home - only to become a headache when it comes to melding disparate national and business cultures.

Note, too, that currently fashionable bank-insurance mergers release fewer cost cuts than bank-bank mergers, while leaving senior managers in place.

Cross-border deals should be more rigorously justified. Sadly, shareholder activism in Europe is too frail a growth to restrain ego-tripping management when a poor case is advanced.

Flight support

Why should the British government help finance a new civilian plane when it would not fund the launch of a car or a bridge? That is the question Tony Blair must consider when he hears a plea from British Aerospace for £23m in public support for participation in two new European Airbus aircraft. The prime minister should reject the request.

The main argument in favour of aid is that aerospace projects are so large that only government help can make them viable. Since other nations support their companies, either directly or through defence spending, the UK must do the same or risk losing jobs and damaging its industry.

The argument is not specious. Even Boeing, the world's biggest aircraft company, receives US government support for defence-related projects. While makers claim to keep civil and defence programmes apart, many developments span both fields.

Cutting aid would allow scarce public resources to be diverted to other needs. But it is politically difficult to scrap support for civil aerospace, especially while other countries do not public money. And there is an argument that without such support, there will be no counterweight to the giant US aerospace companies.

To contain this subsidy race,

however, the government should work for multilateral agreements such as the 1992 accord between the US and the EU limiting launch aid to one-third of the total cost.

Meanwhile, ministers should keep support to an absolute minimum. BAE says it wants funds on commercial terms, on which taxpayers would make a profit. But if the company can afford to borrow from the government on commercial terms, it can do the same from a bank. BAE should be rejected because it is cash-rich and very profitable. It can pay its own way.

Ministers clearly faced a more difficult decision on the £23m launch aid for Rolls-Royce's new generation of Trent aero-engines, agreed last week. Rolls is smaller and less profitable than BAE, and, on its own admission, would have struggled to finance the engines without some public support, albeit on "commercial terms".

BAE claims that if the government fails to contribute money, it will be hard for the UK to play a full part in future Airbus restructuring talks. The British will again seem semi-detached members of a European project.

Mr Blair should turn this argument on its head. He should say that by denying BAE unnecessary finance he is signalling the kind of commercially based restructuring he would like to achieve.

COMMENT & ANALYSIS

Clinton in the middle



From left to right: Hosni Mubarak, Benjamin Netanyahu, Bill Clinton, King Fahd, Yasir Arafat and Saddam Hussein

Montage by Chris Riddell

The shifting sands

David Gardner looks behind this week's events at the wider changes affecting Middle-Eastern politics

What links popular Arab support for Saddam Hussein's belligerent defiance of the United Nations with this week's massacre of foreign tourists in an Egyptian temple? For an answer, step back and consider the frustration from Cairo to Tehran at the slow progress of the Middle East peace process and widespread disenchantment at US policy in the region.

Six years ago, the US bestrode the Middle East like a colossus. Washington had just led a huge army of western and Arab allies to roll back Saddam Hussein's invasion of Kuwait. Victory enabled the world's lone superpower to begin separating the sheep from the goats in the troublesome region.

Washington started isolating "rogue states" such as Iraq and Iran from those it assembled alongside Israel in October 1991 to launch the "land-for-peace" process. Until recently this initiative looked the most successful attempt to resolve the century-old dispute between Arab and Jew over sharing the land of Palestine. So optimistic were some that, as the former Israeli leader Shimon Peres once put it, they envisioned a time when the only general would be General Motors and General Electric.

Six years on, US policy towards the region is in danger of going badly awry. Mr Saddam remains in his Baghdad fastness, still pushing to break out of his UN-imposed isolation. The Islamist clerical regime in Tehran appears reinvigorated and is rearming. Above all, the peace process has been driven into a ditch by Israel, Washington's closest regional ally, under the erratic leadership of Benjamin Netanyahu and his Likud-led coalition of extreme nationalists and religious fundamentalists.

These pressures have broken the post-Gulf war consensus. The US is at odds with its European allies (and commercial rivals) over how to "contain" Iraq and Iran. Washington's Arab allies are fearful of losing the initiative to Islamist radicals such as those

who carried out this week's massacre in Egypt.

Arab leaders are bowing to popular pressure to shun Mr Netanyahu's Israel, which is intent on keeping as much conquered Arab land as it can and on colonising Arab east Jerusalem. The impasse in the peace process - which started when Mr Netanyahu started building the Jewish colony of Har Homa in south-east Jerusalem - is slowly rehabilitating the "rogue" regimes. It is also fuelling a wave of anti-American sentiment across the region.

Syria, disappointed in its quest to get Israel to return the Golani Heights, is moving to end its 20-year feud with Iraq, Iran and Iraq, which fought each other to a standstill in the 1980s, are mending fences. Even vital US allies such as Saudi Arabia have reopened their lines to Tehran.

This week, the US-orchestrated Middle East economic summit in Qatar - the fourth since 1994 to include Israel and designed by Washington to underpin the peace process - was widely boycotted by Washington's Arab friends. But they are expected to turn out in force at a summit in Tehran next month, in which is neither Arab, nor friendly to Washington at odds with its allies.

There is no shortage of conspiracy theories in the Middle East purporting to explain these developments. But what must be unquestionable is that the turn of events is not that intended by US policymakers. So why is the strategy misfiring in a way that threatens to conflict with US national interests and set Washington at odds with its allies?

One answer is relative neglect. Bill Clinton, the US president, in his second term has sought to devote foreign policy to issues that stand higher in the pecking order of US priorities than does the Middle East - the relationship with China, Nato enlargement and a free hand from Congress to forge global trade deals. But the potential for mayhem in a region that contains more than half the world's proven oil reserves keeps on pressing the administration into service as a

firefighter.

Thus, in recent weeks the US has reconvened Israeli and Palestinian negotiators in another attempt to revive the moribund Oslo peace process. Madeleine Albright, the US secretary of state, last week met Mr Netanyahu and Yasir Arafat, the Palestinian leader, to explore the possibility of launching "final status" negotiations. These would resolve the future of east Jerusalem and Jewish settlements in the West Bank as well as the rights of 4m Palestinian refugees, and decide whether the Palestinians get a viable and independent state.

Another reason for Washington's policy failure is its confusing stance towards Iraq and Iran. On Iraq, Mr Saddam's expulsion this month of Americans in the UN weapons inspection team has handed Washington the opportunity to heal a split in the UN Security Council. France, Russia and China last month descended from the US and the UK over a small addition to sanctions on Iraq for failing to come clean on its weapons programmes. The Iraqi despot took this as the cue for his almost yearly challenge to the UN's post-Gulf War sanctions regime.

The split arose largely because Washington's "dual containment" policy has muddled up UN-endorsed sanctions against Iraq with its own unilateral sanctions against Iran - and against allies that do not adhere to them. Last year, Congress passed the Iran Libya Sanctions Act (ilsa), obliging the administration to penalise foreign companies investing in Iran's oil and gas industry.

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Thus, while Washington is relying on France and Russia to provide a diplomatic solution to the Iraqi crisis, the administration is poised - "within weeks" according to senior US officials - to decide whether to impose sanctions on the Middle East - the relationship with China, Nato enlargement and a free hand from Congress to forge global trade deals. But the potential for mayhem in a region that contains more than half the world's proven oil reserves keeps on pressing the administration into service as a

vent the administration and do his deals direct with the conservatives in Congress."

Wherever Mr Netanyahu addresses the Congress, he can count on more unconditional support than in the Knesset. The White House and State Department are locked in debate about whether to apply pressure on Mr Netanyahu over the peace process. But Israel's government and the Washington lobby are busy promoting a series of bills before Congress designed to impose sanctions on Russia for exporting missile technology to Iran.

This is becoming a matter of US domestic political rivalry. Al Gore, the US vice-president - long associated with the pro-Israel lobby and preparing a bid to succeed Mr Clinton - is seeking an agreement with Russia on sales to Iran. Congressional insiders say the Israel lobby is bedding its bets with Mr Gore. Because 80-90 per cent of the "seed-money" - essential campaign funds for Democratic candidates to finance their bids for the presidential nomination - is provided by Jewish donors, it has a lock-hold on Middle East policy.

"In these circumstances, asking what the national interest is is irrelevant," says one well-placed Washington official. "Money is essential to Middle East policy-making, and our ability to make policy is being balanced."

In addition, Martin Indyk,

assistant secretary of state for Middle Eastern and Near Eastern affairs and former US ambassador to Israel, emerged from the Aipac-aligned Washington Institute for Near East Policy.

According to one of the State Department's dwindling band of Arab specialists this has tended to mean the US has "stayed close to Israel" even though "on the substance, we're actually closer to the Arabs - for land-for-peace, for a Palestinian state, and for keeping Jerusalem out of it".

The election of Mr Netanyahu

has altered the equation. "The

consensus here is that Bibi [Mr

Netanyahu's nickname] is a bull

in a china shop," says one influential Democrat. "Netanyahu has shown he's prepared to circum-

vent the administration and do his deals direct with the conservatives in Congress."

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The "domesticising" of Middle

East policy is a sharp limit on Washington's ability to rein in Israel or to take strategic initiatives that could command regional and international consensus. While no other country or bloc has America's weight in the region, the US political system gives Washington very limited ability to manoeuvre.

In the corner of an office in the State Department there is a series of cardboard tombstones commemorating the death of failed policies in the Middle East. Among them is one that no doubt accurately reflects the administration's frustration with its inability to punch its real weight in the Middle East. It says: "Here should lie Ilsa - ill-conceived and making us ill."

OBSERVER

Henning party

Hennig Schmitz-Noelle isn't a boastful man, but neither does he believe in hiding his light under a bushel. The head of Allianz, Germany's biggest insurer, has an understated style that belies the company's global ambitions. He prefers to talk about being the world's best, rather than the biggest.

But in Paris yesterday, the emphasis was very much on size as Schmitz-Noelle gave details of what looks likely to prove one of his and his company's biggest coups yet: an agreed deal with French insurer AGF that will put Allianz at the top of the world league.

The move wasn't entirely unexpected - Allianz had indicated it might make a friendly move to save AGF from the hostile clutches of Italy's Assicurazioni Generali, which tabled a bid last month. AGF chairman Antoine Jeancourt Gallopin - who is of Italian descent and married to a German - plumped for an arranged marriage with Allianz rather than a shotgun marriage with Generali.

Even more friendly is the way the German company plans to let AGF keep its French identity. Its French chairman and a large number of its French

shareholders - Allianz only wants around 51 per cent of AGF at a cost of DM9bn or so.

Schmitz-Noelle, a tall, disciplined 55-year-old with a dazzling smile from his days at Tübingen university - one of five places where he studied law and business - has brought a greater transparency to Allianz's operations and put more emphasis on earning higher returns for shareholders.

Whether those shareholders will be pleased with the AGF deal, and Allianz's role as a Teutonic white knight, remains to be seen. Schmitz-Noelle now has to prove that corporate chivalry can be profitable.

Guest star

The August Metropolitan Club, just a stone's throw from the White House, hasn't exactly been in the forefront of efforts to promote ethnic or cultural diversity in America. But on Monday night its dark wood panels and old-fashioned chintz decor formed the backdrop for a revealing moment in the growing love affair between the Washington elite and the energy-rich republics of the former Soviet Union.

It started with former US ambassador to Russia Bob Strauss presiding over a dinner for President Nursultan Nazarbayev of Kazakhstan - but her more realistic dimensions are a cave-in to feminist critics

who the doll has created an unattainable ideal for little girls.

After a spot of Kazakh music, he held his audience of politicians and lobbyists spellbound with a half-hour lecture on geopolitics, with the assistance of a large map of his country's fabulous oil, gas and mineral resources. The thrust was that Kazakhstan could come second to Saudi Arabia in its oil wealth.

Nazarbayev revealed that he was sealed when he took the septuagenarian Democratic party fixer to a steam bath and thrashed him soundly with birch twigs - he claimed to have done the same to Jim Baker, then US secretary of state. Presidents of wealthy countries have to know when to wield the big stick.

A police complaints commission said there was no legal basis for the arrest of up to 300 people on allegations of belonging to a criminal organisation - a ruse to keep them off the streets while Kohl, Chirac, Blair and Co cavilled over away drafts of the treaty which will bear the city's name.

Some were detained for nothing more subversive than the nocturnal banging of pots and pans outside hotels in the hope of keeping summiteers from their five-star beds. Amsterdam's "anomalous" movement, chuffed with taking on the system at its own game, says it will seek legal redress.

Financial Times

100 years ago

A Note Of Caution
The newest member of the eclesiastical group of Fire Offices is that of the Presbyterian Church in Ireland, whose first report runs to 15th March last. Worked at very small cost and with no claims as yet, there is an appearance of prosperity which induced the directors to declare a 5 per cent dividend on the capital. This is not good finance, and we drop a necessary note of warning at this early stage. Fire insurance is based on averages, but individual years have an awkward habit of varying greatly. No claims this year may mean a disaster next year, and the resources should be carefully husbanded until a proper reserve has been made.

50 years ago
New Iraq Pact
Preliminary announcement is made of a new financial agreement between the Government of Iraq and the British Government. The object is the regulation of the extent to which sterling placed at the disposal of Iraq in the earlier part of August is to be used to effect payments in territories outside the sterling area whose currencies under existing conditions are "scarce".

Wednesday November 19 1997

Japan may use public funds to help banks

By Gillian Tett in Tokyo

Japan's stock market surged for the second day in a row yesterday after politicians said they were considering using public funds to support the country's ailing banks.

The Nikkei 225 briefly rose through the 17,000 level before closing at 16,726.57 - 2.7 per cent up from the previous day's close and almost 11 per cent higher than at the start of the week.

The rise came after Taku Yamashita, policy head of the ruling Liberal Democratic party, said the party was considering establishing a government agency to purchase shares in ailing banks.

The proposals, which would aim to strengthen the capital base of the banks, could be included in the next round of an economic package due to be announced in mid-December, politicians said. The comments heartened investors who interpreted them as a further sign that the government was at

last taking steps to tackle the country's deep-seated financial problems.

While the markets rallied on Monday after the government moved to close the loss-making Hokkaido Takushoku bank, analysts believe that a coherent policy will also involve aiding banks with the inherent strength to survive the loans crisis.

Optimism was also boosted by Japanese media reports that Ryutaro Hashimoto, prime minister, had said he was considering the concept.

"This is good news," said Jason James, of HSBC James Capel. "The reports show that the government is opting to do something more severe to solve its problems."

However, some officials at the finance ministry said they remained opposed to any use of additional public money - particularly given the country's large fiscal deficit.

And banking analysts warned that any such moves could still be blocked by

bureaucrats. Betsy Daniels of Morgan Stanley said: "The stock market is setting itself up for disappointment - it is unlikely that they will really use public funds."

Until now the Japanese government has been opposed to using public money to bail out the country's ailing banks and brokers. However, with the country's planned "big bang" deregulation looming, the financial system is coming under mounting pressure.

Earlier this week, Hokkaido Takushoku, the 10th-largest commercial bank, announced it was ceasing business - the first such collapse of a large bank in Japan.

Meanwhile, the Economic Planning Agency yesterday revealed a package of economic reforms to boost the country's flagging economy.

Long-term focus for reforms, Page 4; Building industry shakeout, Page 15; Lower orders hit, Page 16; World stocks, Page 32

Virtual pets help Bandai quadruple profits

By Michio Nakamoto
in Tokyo

The fad for tamagotchi, the virtual pets, boosted profits at Bandai, their Japanese creator, nearly fourfold to a record Yen 3.8bn (\$35m) for the first half of the year.

Bandai is pinning its hopes on new versions of tamagotchi and related products supporting similar levels of sales and profits to the second half.

The strong profits rise came on a 72 per cent increase in sales to Yen 2.2bn. Net profits of Yen 7.7m were more than double last year's Yen 3.3m.

The tamagotchi fad, which triggered long queues at toy stores and a host of lookalike toys, appears to have abated somewhat in recent months. Sales are now between 1m and 2m a month compared with 3m at their peak.

When the toys were launched a year ago, parents and teachers complained that children were spending too much time and attention caring for their virtual pets.

They also voiced moral concerns, saying that children would have less regard for the value of life as the electronic chickens expired through neglect.

Bandai, which sold 10m tamagotchis in Japan alone in the first six months of the fiscal year, said it had made up for the lower monthly sales figures with related products, such as mascots that attach to cellular phones and light up to signal an incoming call.

The company is also preparing to launch a new version of the electronic chicken which, when mature, will lay its own eggs.

The new versions, designed to appeal to the maternal instincts of the young girls, who often spark crazes for toys in Japan, are scheduled to go on sale in the Christmas season.

Bandai has also benefited from another fad for Pocket Monster characters featured in a Nintendo video game.

In the full year, Bandai expects to see a similar level of tamagotchi unit sales, at 10m, but has conservatively forecast sales at Yen 4.2bn compared with Yen 3.8bn, recurring profits at Yen 11m, against Yen 6.6m, and net profits marginally up at Yen 6.6m from Yen 4.3m.

Earlier this year, Bandai and Sega, the video games maker, announced plans to merge to create one of the leading entertainment companies in Japan.

However, strong opposition within Bandai, spurred to part by the company's success with tamagotchi, scuppered the deal.

The chairman has plans to increase project financing.

See Lex
Editorial Comment, Page 13

US export bank to bypass Kremlin with business loans

By Nancy Dunne
in Washington

The US Export-Import Bank is to bypass the Russian government and provide export financing to businesses in Moscow and St Petersburg with city authorities providing the repayment guarantees.

The break with normal practice was devised by James Harmon, the bank's president, after a recent visit to Russia where he was favourably impressed by the mayor of Moscow and St Petersburg.

Mr Harmon said he also found the officials he met in Russia's banking community and the Duma to be "very intelligent, industrious, very responsible people".

"I was more positive about business than I ever expected to be. There are good relationships between the two (US and Russian) business communities," he said.

Mr Harmon said he was aware there would be "bumps and crises" but said he

believed there was no turning back from Russia's march towards a market economy.

A senior Eximbank official said the bank was awaiting the necessary financial data from the two cities before making a final decision about the municipal guarantee policy.

Mr Harmon, a former investment banker, was also ebullient about Eximbank's new lease of life through its four-year reauthorisation, which Bill Clinton is preparing to sign.

Earlier this year Eximbank was in deep trouble. It had no chairman or vice chairman, and some congressional Republicans were keen to privatise it or severely cut its budget.

Mr Harmon, who took up his post in June, said he made personal visits to more than 100 congressmen to explain the role of Eximbank in markets where private finance is considered too risky.

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Mubarak attempts to stamp out militants

Continued from Page 1

end of the year but was still operating in Cairo and the Red Sea.

Deutscher Reisebüro Verband, the German trade association for tour operators, said it had received numerous cancellations.

Japanese operators, also facing many cancellations, have

said they will arrange alternative holidays or pay refunds to those who cancel.

François Frangialli, secretary-general of the World Tourism Organisation, condemned Monday's attack but said there was a danger that Egypt's neighbours could be affected by an irrational sentiment that all Arab countries were unsafe.

The best way is to tell the truth and show tour operators and journalists what the reality is," he said.

Speaking at the World Travel Market exhibition in London, Mr Frangialli said that other countries facing internal security problems, such as Sri Lanka, had been successful in limiting damage to their tourism industry.

The best way is to tell the

truth and show tour operators and journalists what the reality is," he said.

After getting rid of the unit, Dow Jones should push ahead with further divestments. An obvious candidate

is



FINANCIAL TIMES COMPANIES & MARKETS

Wednesday November 19 1997

Week 47

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INSIDE

Seoul bourse 'yet to hit bottom'

Analysts believe the Seoul stock market has not yet hit bottom as the index approaches its lowest level since 1987. The fall in the currency, the won, is expected to encourage the exodus of investors worried about losses. Page 32

Guinea attacks bauxite partners.
Fassine Fofana, minister of natural resources and energy for Guinea, the west African country that is the world's second-largest bauxite producer, made a bitter attack on some of the foreign aluminium companies that have dominated the bauxite industry in his country. Page 22

Asian cruise company set up.
Several Singaporean companies set up the country's first locally owned sea cruise group, ignoring concerns that south-east Asia's smog and the regional economic downturn made it an opportune time for the launch. Page 17

Dresdner RCM rules out bid for LGT.
Dresdner RCM Global Investors, the asset management company owned by Dresdner Bank, ruled out a bid for the whole of LGT Asset Management, the company put up for sale by Prince Phillip of Liechtenstein this week. Page 16

Renong sale spells disarray.
The purchase of a large stake in Renong, Malaysia's top infrastructure company, by UEM, its subsidiary, is a sign of deep financial disarray in the corporation that carries the government's modernising vision upon its shoulders. Page 18

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Chief price changes yesterday

| FRANKFURT (DM) | | PARIS (FFR) | |
|-----------------|-------------|---------------|--------------|
| Shares | | Shares | |
| DLW | 107.5 + 3.5 | Astar | 1000 + 24 |
| DSI | 550 + 14 | Deutsche | 944 + 18 |
| DSI Pr. | 2550 + 120 | Sandi | 585 + 25 |
| Porsche | 2650 + 120 | Peugeot | 585 + 10 |
| Fiat | 411 - 9 | Elf Agip Crl | 630 - 10 |
| VEN | 550 - 12 | Elf Agip Crl | 630 - 10 |
| Volks | 950 + 19 | Tobacco | 515 - 22 |
| Volksvagen | 950 + 19 | TOKYO (Yen) | |
| Shares | | Shares | |
| Codet Far | 2774 + 24 | Denka Metal | 375 + 25 |
| Fresenius Med | 12% + 12% | Hitachi | 224 + 25 |
| JLG Inds | 12% + 1% | Hitachi | 120 + 25 |
| Fiat | 550 + 120 | Honeywell | 520 + 25 |
| Amoco Prod | 550 + 120 | Toshiba Corp | 945 + 45 |
| Mobile Drilling | 31% - 22 | Media | 520 + 25 |
| Tubocel | 35% - 24 | Energy Corp | 1870 - 120 |
| LONDON (Pounds) | | Shares | |
| Cameras & Hh | 125 + 25 | Telecom | 204 + 115 |
| DLA Pipe | 410 + 125 | Peugeot | 1000 + 125 |
| Petroleum | 2236 + 37% | Chesil | 50,75 - 125 |
| Falls | 12% + 1% | HSC Hld (S) | 1770 - 25 |
| Emerson Els | 600 - 43 | HSC Pct | 84,25 - 125 |
| Siemens | 1725 - 9% | Siemens | 12,50 - 115 |
| Volvo Corp | 8577 - 10% | Siemens Pct A | 30,50 - 115 |
| Toronto (CAD) | | Shares | |
| Alcan | 8.1 + 1.0 | Kingsway | 70.5 + 7.0 |
| Granite Res | 25.8 + 2.3 | Sgt Teng Ag | 602.5 + 65 |
| Aracan Engy | 35.1 + 3.3 | Stora Enso | 21.5 + 1.75 |
| Power Corp | 16.5 - 1.0 | Peugeot | 1000 + 125 |
| Scotiabank | 16.5 - 1.0 | Suncor | 44,75 - 47.5 |
| Crown Re | 6.0 - 1.0 | Till F & C | 80.5 - 85 |
| Penfins Res | 18.0 - 1.0 | Unilever | 47.75 - 50 |

New York and Toronto prices at 12.30pm.

UK aerospace group in talks with Finmeccanica over strategic alliance

BAe seeks an Italian connection

By Paul Betts in Milan

British Aerospace, the UK aerospace group, is in talks with Finmeccanica over a strategic alliance between Finmeccanica's Agusta helicopter subsidiary and Westland of the UK to intensify their existing partnership.

If successful, the talks could lead to a broad tie-up between the two countries' aerospace industries as part of the push towards consolidation in the European aerospace and defence to compete with big US rivals.

Finmeccanica has already reached a preliminary agree-

ment with GEC-Marconi of the UK to pool their defence electronics and avionics activities into three joint ventures. Talks are also continuing between Finmeccanica's Agusta helicopter subsidiary and Westland of the UK to intensify their existing partnership.

BAe and Agusta are understood to have signed a memorandum of understanding this year to examine the possibility of joining forces.

The two companies have exchanged extensive information and are expected to look at whether there is scope for a

corporate alliance. However, officials close to the discussions say Finmeccanica's talks with BAe are far more complicated than the proposed alliance between the Italian company and GEC-Marconi.

BAe is much larger than Agusta, making it difficult to forge a 50-50 joint venture.

More important, the Italian company is not a partner in the European Airbus civil aircraft consortium which BAe has a 20 per cent stake.

The Italian company, which has traditionally collaborated with the big US civil

aircraft makers as a subcontractor, has said it now wants to join the Airbus partnership.

UK efforts to forge strategic links with the Italian aerospace and defence industry have intensified following the collapse of the attempt to negotiate a broad European defence partnership with Thomson CSF of France. BAe's Italian campaign also appears to reflect its wider ambitions to put together a single European aerospace and defence company to compete against the increasingly concentrated US aerospace and defence

industry following the merger between Boeing and McDonnell Douglas.

However, BAe has come up against resistance from the French and also at home from GEC and Rolls-Royce.

Finmeccanica's negotiations with the UK companies are part of a restructuring and privatisation plan. The Italian aerospace, defence, transport, energy and engineering conglomerate is seeking to privatise itself through a series of international alliances.

Editorial Comment, Page 13

Electronics industry warned of palladium shortage

By Kenneth Gooding in London

Warning was given yesterday of a severe shortage of palladium, a metal essential for some components of portable electronic equipment such as mobile telephones and laptop computers, as well as for catalytic converters that remove pollutants from car exhausts.

"Palladium use continues to grow strongly but production lags well behind. Soon after 2000 we could be in a very difficult situation unless industrial users take heed now," said Mike Steel, research director at Johnson Matthey, the world's biggest platinum and palladium marketing group.

He said consumers had been relying on Russia's palladium stocks to fill a substantial gap between demand and supply. JM believes these stocks will run out soon after the end of the century.

Mr Steel said there had been a preview of potential trouble earlier this year when Russia, which produces 70 per cent of the world's palladium, stopped exporting the metal for six months. This helped to drive the price to its highest level for 18 years - \$245 an ounce in August. Although it has fallen back since Russian exports restarted, the price remains roughly double its level at this time last year.

The substantial price rise and worries about supplies have already forced the electronics industry to intensify its efforts to replace palladium with base metals, particularly nickel.

Although base metals would benefit most from growth of electronic equipment sales, palladium was essential for those components needing high

COMPANIES AND FINANCE: INTERNATIONAL

Lower orders hit Japan's contractors

By Bethan Hutton
in Tokyo

Japan's largest construction companies reported lower-than-expected first-half profits as public spending cuts and the consumption tax increase led to lower orders.

All the companies had forecast lower profits, but the worsening economic conditions surpassed predictions. Full-year forecasts were revised downwards by about half of the companies reporting yesterday.

Hazama, a civil engineer-

ing contractor, said restructuring would push it into its first annual net loss in 20 years. It also expects to suspend dividends for the first time.

The first-half net loss reached Y29.6bn (\$235m), against a profit of Y1.1bn, while the full-year net loss is expected to hit Y27bn, after an extraordinary loss of Y128bn from restructuring measures. Part of the extraordinary loss will be offset by the sale of around Y40bn of assets, including the site of its headquarters.

Hazama had previously forecast a net profit of Y2bn. Pre-tax profits should increase almost 50 per cent to Y18bn, because of sales of securities. Sales, which were down 7.6 per cent in the first half, are forecast to fall 6.7 per cent in the full year, to Y528bn.

Pre-tax profits at Kajima, one of the leading general contractors, fell 18.6 per cent to Y8.25bn at the half-year and sales dropped 12.7 per cent to Y27.5bn, below the forecast Y30bn. Kajima maintained its interim divi-

dead of Y4.5. Forecasts for the full year were unchanged with sales likely to be Y1.500bn, down 6.4 per cent; pre-tax profit of Y22bn, down 12.2 per cent; and net profits fractionally down at Y1.6bn.

Obayashi, another of the big five contractors, reported a 45 per cent drop in interim pre-tax profits, to Y8.35bn, with net profits down 35.8 per cent. Orders fell 17.7 per cent overall, despite an increase in overseas orders.

Obayashi cut its full-year forecast for pre-tax profits to Y1.500bn, and the previous forecast of Y1.500bn.

Nishimatsu maintained its profit forecast, but reported first-half earnings below expectations. Pre-tax profits dropped 42.4 per cent to Y7.54bn, and net profits fell 44.7 per cent to Y3.24bn.

Shimizu's first-half earnings came in almost exactly on target, but were helped by Y4.6bn from sales of shareholdings, as revenues fell 1.9 per cent. As expected, first-half net profits dropped 42.8 per cent to Y2.5bn, partly because of valuation losses. Shimizu left its full-year forecast unchanged.

Walt Disney earnings surge to record \$2bn

By Christopher Parkes
in Los Angeles

Walt Disney yesterday reported record annual earnings of almost \$2bn and set the stage for further advances in the current year.

Net income rose 18 per cent in the final quarter to \$411m, taking profits for the year to \$1.97bn - a 25 per cent increase.

Earnings per share in the quarter to the end of September matched analysts' estimates with an 18 per cent rise to 60 cents, while the annual figure rose 25 per cent to \$2.75.

The results had given the group "important momentum" as it prepared to launch several new businesses during 1998, said Michael Eisner, group chairman and chief executive.

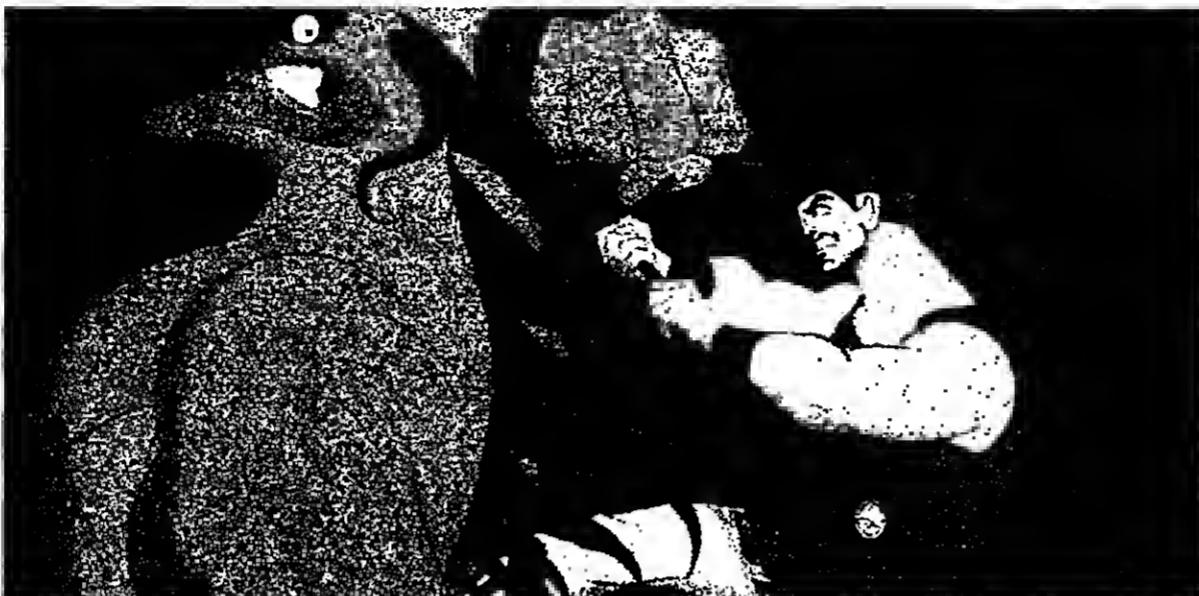
Disney's Animal Kingdom, the fourth and biggest theme park in the company's Florida complex, is due to open in April, shortly after the

maiden voyage of the first two ships ordered to launch a venture in cruising between the company's Florida properties and its private island in the Bahamas.

Further US openings are planned for Club Disney family entertainment venues, mainly in suburban shopping malls, and the group also plans to roll out the ESPN Grill, a chain of sports bars and restaurants to exploit the brand of its cable sports networks.

The fourth quarter's progress was driven mainly by a 20 per cent rise to \$446m in operating income at the creative content division, which includes film, videos, retailing and related products. Revenues were up 2 per cent higher at \$2.74bn.

Among films, Disney credited the international success of *Hercules* and the domestic release of *George of the Jungle*, a live action feature which helped compensate for the relatively weak US showing of *Hercules*.



Battling on: the international success of Hercules helped compensate for the film's relatively weak showing in the US

Broadcasting results showed signs of continuing problems with the ABC television network. Operating income rose only 1 per cent

to \$341m on revenues up 9 per cent at \$1.5bn.

However, theme parks came in with record earnings for the quarter and the year with annual operating income ahead 15 per cent at \$1.1bn while the final three months showed a 12 per cent rise to \$272m.

Dresdner RCM chief rules out bid for LGT

By Jane Martinson,
Investment Correspondent

Dresdner RCM Global Investors, the asset management company owned by Dresdner Bank, yesterday ruled out a bid for the whole of LGT Asset Management, the company put up for sale by Prince Philipp of Liechtenstein earlier this week.

In announcing final regulatory approval for the company's change of name yesterday, Bill Price, chairman, said an acquisition of LGT was "nowhere on the radar".

He denied any interest in further acquisitions "for some time out into the future" as the group concentrated on its offering its asset management products around the world.

The group, which manages \$35bn in assets, would be more likely to look at individual fund managers or teams rather than the whole business.

The Liechtenstein royal family decided to put LGT Asset Management up for sale after a strategic review highlighted the increased dominance of global groups.

Renong reveals the cracks

The share purchase by UEM is a sign of financial disarray

The purchase of a large stake in Renong, Malaysia's top infrastructure company, by its subsidiary, UEM, is a sign of deep financial disarray in the corporation which carries the government's modernising vision upon its shoulders.

UEM, a toll-road operator and darling of foreign investors, was obliged to buy 723m shares, or a 32.6 per cent stake, at a hefty premium to the market price for a total M\$2.30bn (US\$716m).

Analysts said the restructuring was aimed at bailing out Renong, freeing cash to allow the company to continue with key projects and, perhaps most important, providing its controlling shareholder, Halim Saad, with the means to service what bankers say are large personal debts in US dollars. Neither Mr Halim, Renong nor UEM would make any comment on the deal.

Mr Halim has been known to invest in some projects through various, often confidential, personal investment holding companies. He used one, a Hong Kong-registered company, earlier this year to buy the National Steel Corporation of the Philippines for more than M\$1bn, bankers said.

The UEM deal may have involved Mr Halim, who is believed to hold nearly 30 per cent of Renong's shares, selling some or all of his holding to UEM to raise cash, analysts said.

"It appears that foreign bankers were starting to call in their debts as collateral values fell," said one investment analyst in Kuala Lumpur.

Renong's share price fell 50 cents, or 20 per cent, to M\$2.31. UEM's shares, however, fell M\$3.26, or 38 per cent, to M\$2.39 yesterday.

Industry analysts said that sentiment had turned against UEM mainly because it had borrowed the M\$2.4bn it needed to finance the deal from local banks at a time when interest rates are certain to rise. The loan is to be serviced by revenues from UEM's 30-year toll concession on the North-South Highway, Malaysia's flagship privatisation project which went into operation in 1998.

But the revenue stream is not assured. A debate is taking place in political circles as to whether UEM will be awarded the 6 per cent toll increase from January 1998, as stipulated in its privatisation contract.

Some politicians insist that in the current economic downturn, people cannot bear the burden of such an increase. They favour renegotiating UEM's toll contract.

Renong, which is the chief financial arm of the United Malays National Organisation, the country's dominant political party, is burdened with considerable costs for projects which the government regards as top priorities.

One is the M\$4.35bn Putra Light rail system in Kuala Lumpur, which the government wants finished by the Commonwealth Games in September 1998.

Equity financing for E Putra is all but impossible because of the depressed stock market. Other projects which will require funds in the foreseeable future are Putrajaya, a M\$20bn administrative city under construction, and Cyberjaya, a M\$10bn city near Kuala Lumpur which went into operation in 1998.

But the revenue stream is not assured. A debate is taking place in political circles as to whether UEM will be awarded the 6 per cent toll increase from January 1998, as stipulated in its privatisation contract.

Renong is the leading private sector company in both projects and must shoulder much of the fundraising burden.

Dr Mahathir Mohamad, the prime minister, insists that the two city projects, which form the infrastructure for his "multimedia super corridor" - a kind of "Silicon Valley" - must go on. Analysts, however, said that the effectiveness of Renong's participation in the project was now in doubt.

The implications of the UEM deal, though, go beyond the Renong group. The fact that authorities granted the toll operator a waiver from having to make a general offer for Renong undermined the sanctity of corporate governance in Malaysia, analysts said. The rules state that any company acquiring more than a 33 per cent stake must make a general offer. Mr Halim's personal stake in UEM would have taken their combined stake in Renong to beyond 33 per cent.

Investors have started to scour Malaysia's corporate landscape for other cash-rich subsidiaries which could be pillaged by an indebted partner with close political ties. "The fact that this happened probably means that there are more takeovers down the road," said Chong Yoon Chin, investment manager at Aberdeen Asset Management in Singapore.

James Kynge

Phelps Dodge agrees Accuride sale

By Nikkd Tait in Chicago

Phelps Dodge, the large US copper producer, yesterday announced that it had agreed to sell its Accuride wheel and rim business to an affiliate of Kohlberg Kravis Roberts, the New York investment banking firm, for \$260m.

Under the deal, Accuride's management and KKR will acquire a 50 per cent interest in the business, and Phelps Dodge will retain the remaining 10 per cent.

Accuride, which makes wheels and rims for heavy and medium-weight vehicles and for some light commercial trucks, had sales of just over \$300m in 1996. It takes in steel wheel operations in the US, Canada and Mexico, and is involved in producing aluminium wheels through a joint venture arrangement in Erie, Pennsylvania. It is also part of a commercial tyre

and wheel assembly joint venture at Springfield, Ohio.

The deal is expected to close either later this year or in early 1998, and is subject to completion of financing arrangements by the buy-out team.

KKR said that it had been following the heavy-duty truck and trailer sector for some time, and saw an opportunity to build the Accuride franchise internationally.

Phelps Dodge, whose revenues were close to \$4bn last year, said last month that it was talking to potential buyers about the possible sale of Accuride. It said at that stage that a disposal would allow it to concentrate on its core mining business.

Yesterday, Douglas Yearley, Phelps Dodge chairman, repeated that message, saying that the sale permitted the company to "focus on... global growth plans in mining, wire and cable, and specialty chemicals".

James Kynge

AT&T in internet music talks

By Alice Rawsthorn in London

AT&T, the US telecoms group, is in talks with record labels belonging to PolyGram, Time Warner and EMI regarding a project to deliver their music directly to consumers' personal computers over the internet.

Bertelsmann, the German media group behind the Arista and RCA labels, has already reached agreement with AT&T.

The German company is participating in a trial, whereby consumers can download a song by the Verve Pipe, one of its US rock groups, from A2B Music, an internet jukebox operated by AT&T.

Most record companies already sell albums and singles by mail order through internet retailers, such as CD Now and Tower Online. Some labels, notably Sony

Music, have recently launched their own online record stores.

Yet until recently, multinational music companies have been reluctant to move on to the next stage of digital distribution by allowing consumers to download songs directly from the internet into their computers in the form of digital signals.

They have been deterred by the dearth of copyright protection for digitally distributed music, and by the risk of piracy.

Similarly, consumers have complained about the length of time it takes to download music from the internet - typically at least 20 minutes

for a three-minute song.

AT&T claims that its A2B Music software has reduced the time taken to download the same song to just eight minutes.

The company also says that the technology prevents consumers from making unauthorized copies of the digital signal.

Having secured Bertelsmann's co-operation for the A2B Music trial, AT&T is now pressing ahead with negotiations with PolyGram and Warner Music in the US.

Larry Miller, chief operating officer of A2B Music, said that the technology prevents consumers from making unauthorized copies of the digital signal.

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COMPANIES AND FINANCE: INTERNATIONAL

Japan trading groups warn on profitsBy Michio Nakamoto
in Tokyo

Japan's diversified trading companies warned that the economic downturn at home and the impact of currency turmoil in south-east Asia would put pressure on future earnings as they reported lower or flat parent company profits for the half year, in part because of securities losses.

The companies, which have businesses in south-east Asia ranging from natural resource development to the distribution of consumer products, expect to suffer from

slower demand in the region as a result of the recent currency devaluations.

Mitsubishi, which exports vehicles manufactured by its group company, Mitsubishi Motors, said that demand for the vehicles had fallen significantly and that this would affect profits in the full year.

Mitsubishi said it had experienced weaker demand for construction equipment, vehicles and steel for vehicle production as well as for materials such as aluminium and copper. While profits from large-scale infrastructure projects had not yet been affected, orders were

likely to fall as a result of the economic slowdown in the region.

Sumitomo, which derives 40 per cent of export sales from south-east Asia, noted that while the impact had not been significant in the first half, local companies in which it has invested were likely to hit by lower demand, particularly in Thailand.

The companies' also said the sharp fall in consumer demand at home would affect full-year results. Sumitomo expects demand for construction machinery to fall because of the drop in capital investment, while Mitsui forecast it would have

to rely on non-operating profits – particularly higher dividends from its US businesses, which are performing well on the back of the strong US economy – to raise recurring profits in the full year.

In the first half, all trading companies saw recurring pre-tax profits affected by valuation losses resulting from lower stock prices. Sumitomo expects to see a significant decline in full-year recurring profits, from Y107.7bn to Y40bn (\$31.8m), in part because there will be no contribution from securities sales. Sumitomo, which was hit by a big loss in its copper division,

sold Y30bn worth of securities last year.

However, the weaker yen had a beneficial impact on results, Mitsui said the fall in the currency contributed Y30bn to sales.

Mitsubishi, which was the only one of the top five also to report consolidated results, benefited from a rise in overseas trading but suffered lower sales in the domestic market. Group sales in the first half totalled Y7,918bn, compared with Y7,675.9bn, while recurring profits fell 2.6 per cent to Y56.0bn. Net profits climbed 5.4 per cent to Y45.8bn.

SA black investors in IT purchaseBy Mark Ashurst
in Johannesburg

Black business in South Africa has secured a majority stake in the country's leading information technology group, following the separation of the African and international interests of Persetel Q Data.

The new black-controlled company, PQ Africa, will absorb the local operations of both Persetel and Q-Data, South Africa's two leading information technology companies which merged in August.

A consortium of black business groups will be offered a stake of 50 per cent plus one share in PQ Africa for R2.15bn (\$443m), a discount of at least 20 per cent to the directors' estimate of market value. Payment will be staggered to spread the financial burden for the new owners.

Roux Marnitz, chairman of PQ Holdings, Persetel Q Data's parent company, said the discount was agreed solely to make PQ Africa affordable to black investors. Some of the group's most potentially lucrative technologies had been excluded from the deal at this stage to avoid inflating the price.

The offer does not include the international operations of the merged group, which will remain in a separate company, PQ International. Persetel Q Data would channel the proceeds from the sale of PQ Africa to fund further acquisitions by the international subsidiary in Europe, where analysis said it subsequently could seek a new listing on a foreign bourse.

The new structure is designed to win a larger share of government business for PQ Africa. Demand for new technology and consultancy services has increased sharply during the transformation of South Africa's vast government bureaucracy.

"The public sector has made it quite clear that it will give preference to information technology companies which have significant black shareholding. The private sector has also begun to set stringent transformation and black empowerment requirements for its suppliers," the company said.

Buoyant international sales helped Barlow, the South African industrial group, announce a robust rise in profits in spite of sluggish conditions in its home market.

International operations contributed 45 per cent of net operating profits in the year to September 30, compared with 37 per cent last year. Turnover rose 11 per cent to R19.2bn.

Earnings per share increased 18 per cent to 38 cents.

The final dividend was 88 cents per share, giving a full-year total of 124 cents.

Asian cruise company set upBy James Kyng
in Singapore

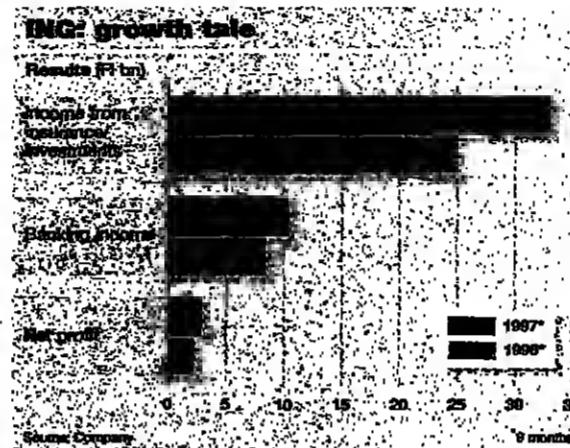
Several large Singaporean companies yesterday set up the country's first locally-owned sea cruise company, and brushed aside concerns that south-east Asia's smog and the regional economic downturn made it an inopportune time for the launch.

Sun Cruises, with a paid-up capital of S\$70m (US\$44m), represents the first step in Singapore's quest to become the hub for cruise holidays in south-east Asia.

Metro Holdings, a large property and retail company, has 67 per cent of the company's shares, and two Sembawang companies – Sembawang

BBL buy solves equation for ING

Dutch financial group sees its acquisition as supplying a 'second home market'



activities form one business that the Amsterdam-based group finds attractive.

It talks also of the opportunities BBL offers to plug gaps in its international network – such as in Africa, where it has little presence north of Johannesburg.

The main prize, however, is in Belgium itself, where BBL's customers offer the "second home market" which the Dutch group has long coveted.

In spite of high-profile takeovers such as the 1995 rescue of Barings in London, ING's operations in the Dutch banking and insurance markets still contribute 70 per cent of its profits.

It tried to take over BBL in 1992, but that proposal foundered amid opposition from its own shareholders as well as those of the target company, which was then in a poorer financial state. ING

came away with a 13.4 per cent stake and, because of another parcel held as security against a loan, voting rights of nearly 20.2 per cent.

Until now ING has chosen not to equity-account the holding, treating it as a source of dividend income.

The value of the investment doubled as BBL put itself on a better footing. But the Dutch group did not want its presence on the share register diluted by a "Belgian solution" to BBL's future.

T his spring, Mr Jacobs enumerated ING's acquisition priorities as life assurance in the US, an investment banking purchase in the same market, and expansion in European retail banking. The first two were fulfilled through the \$2.2bn takeover of Equitable of Iowa and a \$425m deal with Furman Selz, both of

which were completed last month. Along the way ING missed out on Dillon Read, a better known Wall Street firm than Furman Selz and already an affiliate. Dillon chose to sell to SBC Warburg, which offered greater independence.

BBL will operate under its own banner, with Michel Tilman, chief executive, becoming the sole non-Dutchman on the ING main board. He will head an ING Belgium "executive centre", the only national grouping represented at director level apart from the Netherlands.

Other operations such as Poland's Bank Slaski, where

ING gained control last year, fall under the control of board members responsible for numerous countries.

The BBL deal creates the largest financial group in the Benelux and the 12th-biggest in Europe, with assets of

well over F1 800bn (\$409bn). It is viewed as a springboard to an otherwise difficult French market and as a foundation for operating in the single currency zone.

S&P, noting that the acquisition adds 34 per cent to ING's loan book and boosts asset under management by 24 per cent, says: "Belonging to the much larger and more diversified ING group would enhance the ultimate capital and liquidity support of BBL."

ING shares rose 2 per cent on Monday as shareholders welcomed the unexpectedly quick accord and shrugged off worries that Baron Albert Frère, who controls at least one-quarter of BBL, will seek soon to unload the stock in the Dutch group he will receive when the offer closes on December 17.

Gordon Cramb



INTERNATIONAL NEWS DIGEST

Citibank in talks to buy Thai stake

First Bangkok City Bank, Thailand's seventh largest bank with assets of about \$7bn, is negotiating to sell a significant equity stake to Citibank, the US bank owned by Citicorp.

The news sent a wave of excitement through the battered Thai financial industry. The country's 15 commercial banks need billions of dollars of fresh capital to repair the damage caused by bad loans – money that simply is not available in the cash-starved local economy.

"We have had very serious discussions... it all depends on what Citibank will decide about us," an FBCB official said in response to a local newspaper report that Citibank was planning to purchase a 30 per cent stake in FBCB.

The US group declined to comment and FBCB officials said no due diligence had yet been undertaken.

The deal would be an outstanding vote of confidence in Thailand by Citibank, said David Connor, head of research at Indosuez W.J. Carr in Bangkok. Citibank already has a branch office in Bangkok and has targeted the middle-class retail market.

Observers remained cautious as to the outcome of the negotiations, especially as many suspect that prices remain unrealistically high. There are roughly the same number of medium-sized targets around as there are potential buyers. George Morgan, head of research at ABN Amro Hoare Govett in Bangkok, said that potential buyers would be able to find what they wanted at the right price.

ING of the Netherlands, recently said it would take an exploratory 10 per cent stake in Siam City Bank and 40 per cent of the tiny Laem Thong Bank has passed into foreign hands.

The Thai authorities said last month that foreigners would be allowed to own up to 100 per cent of banks and finance houses for up to 10 years – and in practice a lot longer.

William Barnes, Bangkok

■ INDIAN TELECOMS

MTNL goes ahead with GDR

MTNL, the state-owned India telecommunications company, yesterday said it would push ahead with the launch of its Global Depository Receipt issue today, in spite of turbulent market conditions which last week forced the company to cut the size of the issue by 40 per cent.

Two weeks earlier, Gail, India's gas authority, abandoned a planned GDR issue. But investment bankers involved in the MTNL issue say the company is "easier to sell" as it is better researched and easier to value. They also expect to attract specialist telecoms investors.

MTNL, which provides fixed-line telephone services in Bombay and Delhi, is offering up to 35m Global Depository Receipts representing 70m underlying shares. The offer comprises a sale of 20m shares held by the government, an issue of 20m new issues, and the option to issue a further 10m shares.

The company last week reduced the initial public offer portion from 60m shares to 20m shares after its pre-marketing exercise revealed weak conditions in international markets. This reduces the funds available to MTNL for its Rs120bn (\$3.25bn) investment programme, although it will boost earnings per share.

The GDR issue will now yield about \$450m – roughly half the amount originally envisaged. But the government will still sell the same amount of shares, which it hopes will help plug the gaps in its funding programme. The government's stake will fall to about 56 per cent once the GDR issue is complete.

Krishna Guha, Bombay

BTL plans to link with rival

By Tim Burt in Stockholm

BTL, the leading Swedish haulage company, yesterday confirmed it was planning an alliance with German rival Schenker-Rhenus, paving the way for a merger to create Europe's largest road transport and logistics group.

The deal is expected to lead to a combined operation with annual turnover of SKr15.8bn (\$6.86bn), and employing some 30,000.

It follows more than three months of talks between BTL, which is quoted in Stockholm, and Schenker-Rhenus, part of the Veba industrial group.

The enlarged transport group would become the European market leader ahead of competitors such as NFC of the UK, Nedlloyd of the Netherlands and Danzas of Switzerland.

As part of the transaction, Finnlines – the Finnish shipping group which holds 26 per cent of BTL's equity and 51.5 per cent of the voting rights – has agreed to a swap with Veba.

In exchange, Finnlines will take control of Poseidon Schiffahrt, the shipping arm of Veba's Stettiner subsidiary.

That deal will make Finnlines one of the largest cargo

shipping operators in the Baltic Sea region.

Finnlines, meanwhile, said yesterday that BTL and Schenker-Rhenus would together "form the biggest European conglomerate in road, rail, air and sea freight transport".

Initially, however, the companies will work as alliance partners rather than a fully merged group.

Hakan Larsson, chief executive of BTL, said the companies were working together on ways to reduce administrative overlap and save operational "cost savings".

"There are considerable synergies from staff reductions and better utilisation of terminals," he said.

Although no timetable has been set for a formal merger, Mr Larsson confirmed that was the ultimate goal.

Together, the two companies will offer a pan-European transport distribution service with offices in some 60 countries.

Senior managers from BTL and Schenker-Rhenus have been appointed to a working party to develop a joint strategy for the enlarged group.

The options under review

include a merger from Veba and a possible future listing.

Asian cruise company set upBy James Kyng
in Singapore

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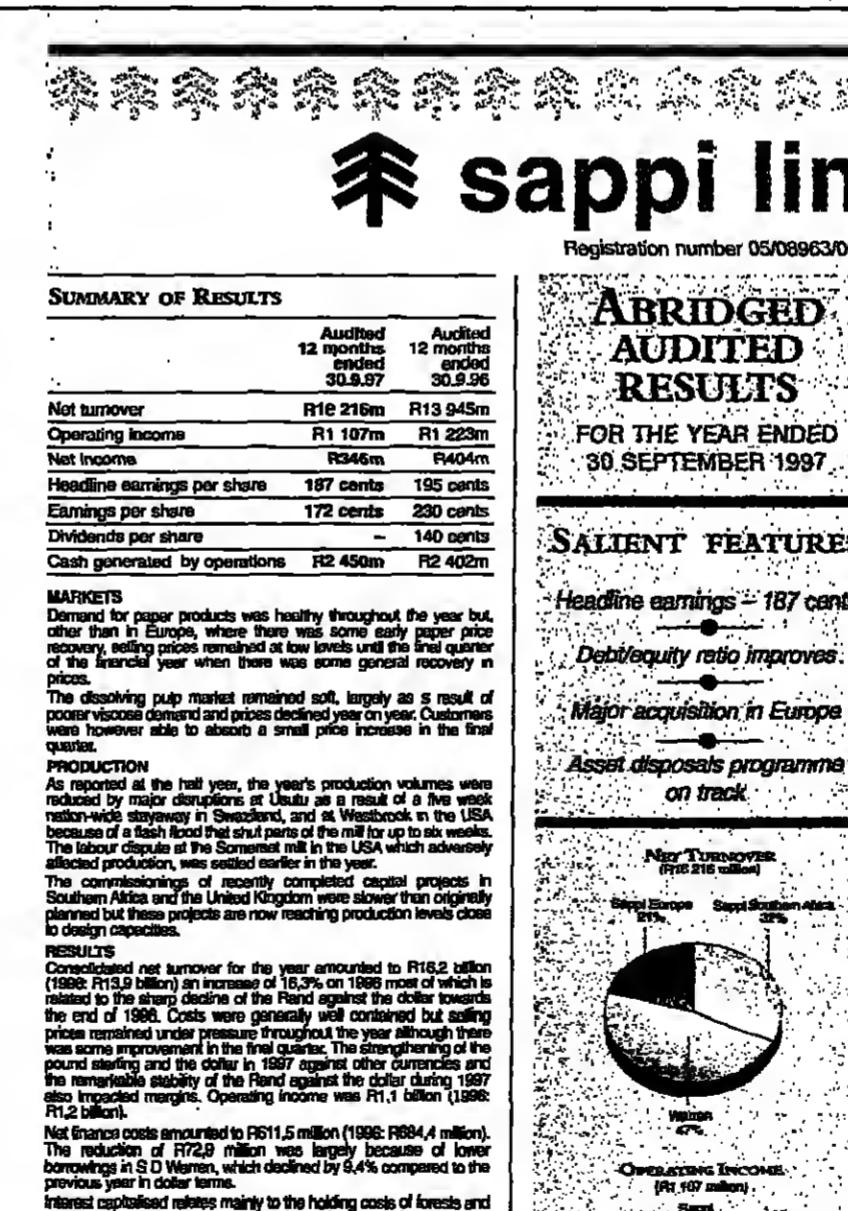
wang Marine and Logistics and Sembawang Leisure – together have 27 per cent.

The remaining shares are reserved for management or held by DCI Holdings, an investment company.

The involvement of Sembawang, a large government-linked company, invests the new venture with strategic importance. Singapore's shipyards have identified marine leisure – including yachting, cruises and water-sports – as a promising business with the capacity to partially offset falling revenues from core operations.

For example, Karpel plans to develop one of its almost idle shipyards into a top-class marina. Sembawang may also seek to redevelop

"the business of fun" is a serious business," he said.



COMPANIES AND FINANCE: INTERNATIONAL

US cosmetics group says economic turmoil in Brazil and other emerging markets may hit profits

Shares in Avon slide 13% on warning

By Richard Waters in New York

Shares in Avon Products plunged more than 13 per cent, from \$65½ to \$56½, in New York yesterday morning after the cosmetics group became the latest US company to warn that the economic turmoil in Brazil and elsewhere would dent its profits in the coming months.

The warning came late on Monday, coinciding with news that BankBoston had suffered trading losses of \$20m as a result of the

decline in Brazil and other emerging markets during October.

However, in spite of the news from the emerging markets, Wall Street's fears about the potential damage to the profits of US multinationals have receded in recent days. The economic upheaval in Asia, and, more recently, Brazil has prompted volatility in US shares prices, but by midday yesterday the Dow Jones Industrial Average was back at its level before October's market disturbance, and ana-

lysts' forecasts for corporate earnings next year have remained largely intact.

Avon, which has been among the most successful US consumer products companies in Latin America, warned that its earnings in last quarter of this year would be in the range \$1.00-\$1.05 a share, short of the \$1.10-\$1.15 analysts had expected – even after a 13 cents a share gain from the settlement of a tax claim.

The company said that "agres-

sive marketing initiatives" in Brazil were not producing the sort of sales increases it had expected, in part because of greater consumer caution in the face of the country's economic uncertainty. Sales in Brazil reached \$500m last year.

The cosmetics group said that its revised outlook was based in part on disappointing sales in the US, further weakness in Japan and slower sales growth in China, which had been caused by tighter regulatory requirements on direct

selling companies there.

News of Bank Boston's trading loss echoed the earlier announcement that the collapse of emerging market debt prices had caused a \$160m trading loss at Chase Manhattan in October. It came despite comments from Bank Boston officials in the middle of last week that the outlook for the bank's earnings was largely unaffected by the problems in Brazil, where it has a larger presence than most US banks.

Allianz bid mirrors its global ambitions

The anonymous post-war facade of its Munich headquarters gives no clues to the ambitions harboured by Allianz.

Already the biggest insurer in Germany, its acquisition of Assurances Générales de France would make it a world leader.

Allianz said yesterday the acquisition would make Europe – rather than Germany – its "home" market.

The enlarged group would be among the top five insurers in France, Spain, Belgium and Ireland, with combined worldwide premium income of DM11bn (\$835.5bn).

The need to diversify has become overwhelming for Europe's big insurers. Companies such as Allianz, Italy's Generali and France's Axa have for years been national champions in their own backyards, but relative lightweights elsewhere.

For these companies, building up international operations is about spreading risk.

With competition increasing in personal insurance across Europe as regulatory barriers fall and monetary union looms, it makes little sense to be over-exposed in any one market.

When the French insur-

ance giant Axa acquired its recently privatised rival UAP last year, it also won a large slice of the German insurance market through UAP's Colonia subsidiary.

For Allianz, which is under-represented in France with only a 2 per cent share of the market, this was difficult to accept. Its friendly bid for AGF has sent a powerful signal that it intends to regain the initiative.

France is the fourth highest market in Europe, but also one of the most underdeveloped.

The prospects for growth are much greater than in countries like the UK, where premium rates have been fixed for longer, competition is already fierce, and the market fragmented.

All the same, Generali's bid had presented AGF with a task that proved all but impossible: to find allies willing to provide sufficient money to defend it. Few insurers have the resources or motivation.

Allianz had long co-operated with AGF, and even expressed its interest after the group's privatisation last year in taking a significant stake.

At that stage, AGF preferred to develop independently and Allianz veered

away from considering a hostile bid.

When it agreed this time round, it did so in a way that minimised the cash outlay, by seeking to take only 51 per cent and encouraging shareholders to opt for its "detachable right" offer, which provides compensation at a future date.

This apparent objective to seek only just over half of AGF also has strong political appeal in France, where AGF has been careful in its lobbying in recent weeks to play the card of nationalism against the perceived threat of a foreign takeover of a leading financial institution.

Allianz has agreed to keep management and decision-making in France, and to take only a minority of the boardroom seats.

France will account for 22 per cent of the combined group's earnings. Bancassurance agreements with Crédit Lyonnais will allow the German insurer to sell life and pensions products to a bigger customer base.

In addition, Allianz's position in industrial insurance – where it wants to become world leader – will be strengthened, especially in the marine, aviation and credit insurance markets.

AGF has built up a strong presence in commercial lines of business, servicing the needs of multinational clients. With planned monetary union in Europe less than two years away, businesses are demanding that insurers have a global presence.

Through its Rhin et Moselle subsidiary in Strasbourg, Allianz already has 8 per cent of France's commercial insurance risks market.

But profitability has been

Top 20 European insurers

| Ranked by European direct GWP life and non-life, 1996 | Home country | GWP \$bn |
|---|---------------------|----------|
| Allianz | Germany | 41.3 |
| Axa/UAP | France | 40.6 |
| Generali | Italy | 26.4 |
| CNP | France | 18.6 |
| Württemberg | Switzerland | 17.6 |
| Zurich | UK | 12.7 |
| Reinsurance Sun Alliance | Switzerland | 12.3 |
| Swiss Life | Germany | 10.8 |
| Assurances & Prévoyance | France | 10.5 |
| Predicor | France | 10.0 |
| Prudential | UK | 9.8 |
| GAN | France | 9.8 |
| AGF | Germany | 9.5 |
| Commercial Union | UK | 9.5 |
| BIG | Netherlands | 7.7 |
| Argon | Netherlands | 7.2 |
| Norwich Union | UK | 7.0 |
| Fortis | Belgium/Netherlands | 6.7 |
| BAA | UK | 6.5 |
| Achmea | Netherlands | 6.1 |

Source: Deloitte & Touche European Insurance Database. * Gross written premiums

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Through its Rhin et Moselle subsidiary in Strasbourg, Allianz already has 8 per cent of France's commercial insurance risks market. But profitability has been

poor, say analysts.

The savings achieved through merging with AGF should improve that. Annualised cost synergies are estimated at DM300m by 2000, most of which would accrue in France.

But Georg Kanders, insurance analyst at Westdeutsche Landesbank, said that the deal would not offer as many synergies as a link with Generali, which already

has a 6 per cent market share in France.

Analysts agreed Generali could come back with a higher bid. But Mr Kanders did not think it would succeed, if it chose to make one, since the agreement of the AGF board to the Allianz approach was crucial.

If the Allianz bid succeeds, it seems that neither Allianz nor AGF will be interested in participating in privatisation of the state-owned GAN.

Michael Klein, analyst at Delbrick, said AMB Aachen und Münchener Betreibungen would probably be sold.

The Franco-German group might also dispose of Coface, the French trade credit group.

Generali was seen as a possible bidder for AMB, since this would provide an opportunity to lift its weak presence in Germany.

But Antoine Bernheim, the French chairman of Generali, is a skilled bridge player. He may well not yet be ready to call the game quits.

Christopher Adams, Andrew Jack, and Andrew Fisher

INTERNATIONAL NEWS DIGEST

SocGen to invest in private groups

Société Générale, the French bank, has set up a new private equity team and will commit \$1bn of its own funds for investment in unlisted companies around the world. Some \$350m of the total will be invested in Europe by a new private equity team headed by Philippe Sevin, who has joined Société Générale from Eurosuez, an investment fund in the Suez group.

The new team will be based in London and will include Bruno Lambert and Philippe Renié, who worked with Mr Sevin at Eurosuez. The bank will also be investing in North America through a private equity team led by Jim Lane, a former Goldman Sachs partner.

Some \$300m has already been committed to private equity funds run by other managers, leveraging Société Générale's existing lending to the buy-out industry. A number of international investment banks and venture capital managers have raised large funds for private equity investments in Europe, including a \$2.5bn pool raised last month by Doughty Hanson, the London-based manager.

However, Société Générale believes it will be able to target smaller and less widely auctioned deals in France, Benelux, Germany and Italy. The French bank has built up its London investment banking operations rapidly, taking its corporate finance team from two to 50 in a year. Yesterday, it announced the appointment of three new corporate finance directors. Laurence Billeter has joined from Salomon Brothers to head the global transportation and infrastructure investment banking team. Emmanuel Roger joins from Crédit Commercial de France as co-head of the automotive team, while Käte Pledger comes from Crédit Agricole Indosuez as director of Nordic investment banking.

George Graham, Banking Editor

PULP AND PAPER

Rally in prices lifts Sappi

Former commodity prices in the final quarter helped Sappi, the South African pulp and paper producer, claim a "significant recovery" in the second half. Turnover rose 16.3 per cent to R16.2bn in the year to September. Earnings per share for the full year were 172 cents, against 230 cents a year ago and 16 cents at the halfway stage.

The results – released a day after Sappi confirmed its R6.5bn (\$1.34bn) acquisition of KNP Leykam, the Dutch pulp and paper group – were ahead of market expectations. In spite of the improvement, no dividend was declared. Eugene van As, chairman, said the funds would be used instead to pay down debt. Sappi had acquired the outstanding 25 per cent of shares in SD Warren, its US subsidiary, during the period. Disposals of non-core assets helped reduce the overall debt-to-equity ratio from 0.99 to 0.85 at September 30. "It is expected that dividend payments will be resumed next year," said Mr van As.

The acquisition of KNP Leykam – to be funded by a combination of debt and shares – was probably the last step in Sappi's strategy to consolidate its position as the world's biggest producer of coated wood-free paper. SD Warren contributed 56 per cent of net operating income, compared with 27 per cent from Sappi Southern Africa and 9 per cent from Sappi Europe.

Mark Ashurst, Johannesburg

RETAILING

KBB trims German operations

KBB, the Dutch stores group, is to shut nearly two-thirds of the German outlets in its M&S Mode women's wear chain. The move follows persistent losses and the failure of attempts to find a buyer. Reversing a plan to end M&S Mode operations in Germany, KBB said yesterday it would retain 63 stores with annual sales of F190m. Most are near the Dutch and Belgian border, and will be supplied directly from the Netherlands after the closure of a local distribution centre. Gordon Crumb, Amsterdam

MOTOR INDUSTRY

Volvo, VW play down talk of deal

Volvo yesterday declined to comment on reports in the German magazine Stern that Volkswagen of Germany was negotiating to buy a stake in the Swedish automaker. "This kind of speculation comes up from time to time but we don't comment on speculation," said Volvo press spokesman Mats Edberg.

According to Stern, Volkswagen, Europe's largest automaker, is interested in taking a stake in Volvo. "There are talks," an unnamed VW source is quoted as saying. "But a deal is still far from being wrapped up." Volkswagen would not comment on the report. "This is pure speculation and we are making no comment," said Volkswagen.

Volvo's shares closed up at SKr209. VW shares, meanwhile, closed at DM398.00, down DM24.00.

Agencies, Stockholm

SHARE OFFERING

Heidelberg sets price range

Heidelberg Druck-maschinen, the German company which is the world's biggest maker of printing presses, has set an indicative price range of DM22-DM27 for its forthcoming international share offering. The company is to issue 8.2m new shares, representing about 15 per cent of its share capital, and will be listed on the Frankfurt stock exchange on December 8. Roadshows begin today, with books closing on December 5.

The share issue is not strictly an initial public offering, but a "Schitt-auf-hol-surück". This is a common and tax-efficient way among German companies of raising capital under which they pay out a high amount of retained earnings in a dividend and get some of it back through a capital increase. After the share issue, Heidelberg will be owned 57 per cent by Lahmeyer, a quoted company controlled by the utility RWE; 24 per cent by Almico, which is owned by German financial groups; and 0.75 per cent by family shareholders. The remainder represents the free float resulting from the new issue.

Vincent Boland

True North rejects French merger plan

By Andrew Jack in Paris

True North, the US advertising agency, yesterday hit back with a firm rejection of the merger proposed by Publicis, its former French partner, and insisted it would push ahead with its planned acquisition of the rival Bozell agency in the US.

In an escalation of the tensions between the two groups, True North said it had taken the "unusual step" of releasing a letter from its board to Publicis, after Publicis on Monday released its confidential letter to the US group.

True North said its board had on November 12 rejected Publicis' proposal earlier this month of a merger between the US group and its subsidiary Publicis Communication, which it said would be a \$25 share and cash offer to True North shareholders.

It said the True North board had unanimously voted against the offer made by Publicis – with two absences, including the representative of Publicis – arguing that it was not materially different from offers considered and turned down in the past.

Under the terms of a "divorce" settlement reached this spring, Publicis ended up with 18.5 per cent of True North, which in turn owned 26.5 per cent of Publicis Communications, a subsid-

ary which groups most of Publicis' activities in the US.

Maurice Lévy, chairman of Publicis, argued in spite of differences between the two groups in the past, it was in their mutual interests to co-operate and to create a single, global advertising network.

However, Bruce Mason, chairman of True North, said from New York yesterday that "given the decade of acute corporate disagreement that led ultimately to our divorce, top management and several of our key clients would be agitated" if the merger went ahead.

He also suggested that Mr Lévy had "utterly failed" to build an international network, saying that Publicis had 18 international partners compared with a presence in 74 countries for True North and Bozell combined, with 30 per cent of its billings generated outside the US.

Publicis, which has been expanding its international network rapidly in the last few months, said 75 per cent of its billings were conducted outside France.

The French group said that it was "disappointed but not surprised" by the True North response. However, it continued to believe that its offer was more attractive and it would continue to push for its acceptance by shareholders.

The comments accompanied the company's third-quarter results, which were lifted sharply by acquisitions and a strong US dollar.

Pre-tax profits rose 110 per cent to DM322m (\$186m). Group net profits climbed 81 per cent to DM155m while net profits at its Fresenius Medical Care subsidiary rose 20 per cent to \$73m.

The subsidiary was formed after the company bought National Medical Care, the dialysis arm of W.R. Grace, of the US, in a multi-billion dollar deal.

"Our considerations include the possibility of

selling these divisions, establishing a joint venture or downsizing those units," he added. "A decision on the alternatives is expected in the first half of 1998."

COMPANIES AND FINANCE: UK

Laura Ashley chief quits

By Peggy Hollinger

Laura Ashley yesterday parted company with its highly paid and controversial chief executive, Ann Iverson, who has presided over the company's sharp fall into loss in the past year.

The company, which is known for its floral patterns and quintessentially British country image, has changed its senior management four times in the past seven years in a so far futile effort to revive its fortunes.

Ms Iverson, who took over as chief executive in 1995, initially enjoyed some success but this year the company announced three profit

warnings and pre-tax losses of £4.5m (£7.5m) in September.

The company said Ms Iverson would depart "with immediate effect" to be replaced by David Hoare, who was drafted in by chairman John Thornton to take over day-to-day running of the business. Finance director Jim Walsh will also leave as soon as a replacement can be found.

It is understood that the non-executive directors – including 35 per cent shareholder and founder Sir Bernard Ashley – decided on Monday night to ask for the resignations of Ms Iverson and Mr Walsh.

The American-born Ms Iverson, who earned more than £1m last year in salary and bonuses, will leave with a payment equal to her basic salary of £260,000. Mr Walsh will receive £200,000 – also his basic salary.

It appears that trading to the past three months has deteriorated in North America, where Ms Iverson was pursuing an aggressive expansion programme until it was halted on the arrival of Mr Hoare. Analysts are expecting the group to incur losses this year of about £6m, entirely due to the US stores, against forecasts of about £3m in September.

One long-time institutional

investor described his recent experience as "one sorry episode". Ms Iverson had seriously misjudged the North American market. She had significantly raised expectations, but she just did not do it.

Although Mr Hoare's remuneration has not yet been settled officially, he is understood to be on a basic salary of £200,000 a year, half of which will be reinvested in Laura Ashley shares. In addition, he will have an option package which becomes exercisable over a three-year period beginning in 2000.

See Lex, back page

Government blocks sale of Sears arm

By Peggy Hollinger

The government yesterday dealt a severe blow to Sears, the struggling retail conglomerate, as it blocked the proposed £270m (£325.3m) sale of its home shopping arm to Littlewoods, the private pool and mail order group.

The disposal of Freemans was crucial to the company's plans to make a meaningful cash payout to shareholders, who have watched their investments tumble by 42 per cent in the past two years. Now investors are unlikely to get much more than the £80m – roughly 5p a share – raised from the disposal of a Scottish shopping centre earlier this year.

Margaret Beckett, trade and industry secretary, took what appears to be an increasingly tough line against market consolidation. She backed the monopolies and mergers commission findings that the combination of Freemans and Littlewoods could be expected to operate against

the public interest.

Her main concern was that agency mail order – where agents sell products in return for commission – is still relied on by a significant proportion of lower income households as a source of credit.

"Neither the high street nor other forms of home shopping particularly direct mail order (without agents) could be regarded as adequate substitutes for agency mail order," she said.

Although market leader Great Universal Stores would still have a larger share of UK agency mail order, consolidation would mean that two players controlled more than 80 per cent of the industry.

This increase in concentration could be expected to reduce the level of existing competition significantly, leading to a detrimental effect on choice, prices or efficiency in the agency mail order market," she said.

Sears said it would now focus on demerging Freemans in 18 months' time.

LEX COMMENT Littlewoods

Political considerations were always going to get in the way of Margaret Beckett, trade and industry secretary, sanctioning Littlewoods' attempt to buy the Freemans mail-order business. With the combination likely to have about 30 per cent market share, she would have appeared anti-competition.

And with some of its customers credit-dependent, she could have been portrayed as strengthening the hand of business at the expense of the poor. Good politics, however, need not equate to sound business. And in this case, Ms Beckett is guilty of setting policy with her gaze locked firmly on the rear view mirror.

The reality is that, for all the fancy market share figures, agency mail-order is a business in decline. Credit is much more readily available than it used to be, and all the growth is coming in the direct mail-order market. Moreover, the market share figures are misleading: the likes of Littlewoods and GUS face stiff competition from the high street and, increasingly, from direct mail order where mighty names like Marks and Spencer are mustering in. Not for nothing is GUS, the market leader, spending most of its energy diversifying into information services.

Ms Beckett may fly the pro-competition flag, but all she has achieved is to delay the inevitable consolidation of a sector that has fallen out of fashion. Arguably, she has also retarded the interests of those she hopes to protect: Sears said it would have allowed more aggressive credit decisions.

Taylor Nelson AGB buys Sofres

By Enrico Terszko

Taylor Nelson AGB, the UK market research company, is buying Sofres of France for FF1.15bn (£80m) to create Europe's leading and the world's fourth largest market information group.

The deal, to be financed by a rights issue and bank borrowings, allows Taylor Nelson to service multinational groups which face increasing needs for global market research. "With the operations of the combined group in 28 countries, we can now offer our products to the Coca-Colas and the IBMs throughout the world," said Tony Cowling, chief executive of Taylor Nelson.

Sofres had revenues of FF1.41bn (£14m) and operating profits before exceptional charges of FF1.02m last year. The group, which focuses on ad hoc products, has been building up its international network through acquisitions.

Taylor Nelson will raise £25m (£39.7m) by way of a 4-for-3 rights issue of 101.1m shares at 50p each. Finmuc, the majority shareholder of Financière Sofres, Sofres' parent company, will subscribe £27.7m for new equity in Taylor Nelson, equivalent to 11 per cent of the enlarged group.

Mr Cowling said the merger would be earnings enhancing in the first year. Peel Hunt, the stockbroker, upgraded its earnings per share forecast for 1998 from 3.1p to 4.4p.



Taylor Nelson's Martin Frame, FD (left), and Tony Cowling

RESULTS

| Turnover (£m) | Pre-tax profit (£m) | EPS (p) | Current payment (p) | Date of payment | Dividends Corresponding dividend | Total net year | Total net year |
|------------------------|---------------------------------|----------------|---------------------|---------------------|----------------------------------|----------------------------------|----------------|
| BOC | Yr to Sept 30 3.676 (3.732) | 445 (465) | 59.31 (57.74) | 14.5 | * | 13.5 | 27 |
| Cordis | 6 mths to Sept 30 14.75 (11.16) | 1.00 (1.77) | 6.74 (1.14) | Dec 12 1.5 | - | 4.75 | |
| Chamberlin & Hill | 6 mths to Sept 30 15.8 (10.3) | 1.359 (0.928) | 12.95 (2.24) | Dec 12 2.5 | - | 8.1 | |
| Drapier (Academy) | 6 mths to Sept 30 26.9 (22.4) | 1.47 (2.65) | 11 (18.2) | Jan 5 1.5 | - | 4.7 | |
| De La Rue | 6 mths to Sept 30 57.6 (58.2) | 5.63 (60.3) | 18.6 (16.7) | Jan 16 7.5 | - | 24 | |
| Enterprise Jones | Yr to Sept 30 10.3 (8.61) | 12.724 (5.344) | 18.24 (6.44) | Jan 27 4.5 | 7.5 | 8.75 | |
| Fernell (Tele 6) | 6 mths to Sept 30 4.48 (4.61) | 0.011 (0.265) | 0.057 (1.22) | - | - | - | |
| Gill Thompson | 6 mths to Sept 30 3.06 (3.1) | 1.51 (1.964) | 2.1 (2.1) | - | - | - | |
| GT Portland | 6 mths to Sept 30 47.6 (47.6) | 15.44 (21.93) | 3.37 (5.1) | 2.8 | - | 9 | |
| Entertainment Holdings | 6 mths to Sept 30 7.52 (6.08) | 0.422 (0.800) | 1.46 (0.281) | 0.5 | Jan 15 | 0.5 | 2 |
| Hampshire | 6 mths to Sept 30 13.7 (16.9) | 0.932 (0.404) | 0.2 (0.1) | n/a | - | n/a | |
| Manfield Grey | 6 mths to Sept 30 86.1 (73.8) | 11.52 (10.54) | 12.86 (11.5) | Dec 16 2.1 | - | 7 | |
| Merchandise | 6 mths to Sept 30 13.0 (13.5) | 15.26 (13.7) | 1.76 (5.37) | Apr 6 1.5 | - | 5.2 | |
| Merchant Retail | 6 mths to Sept 30 26.5 (26.4) | 0.671 (0.269) | 0.27 (0.041) | 0.1 | Jan 15 | 0.1 | 2 |
| Mountain Foods | 6 mths to Sept 30 1.45 (1.45) | 0.055 (0.055) | 0.02 (0.02) | 2.7 | 2.0 | 0.4 | |
| NT Electricity | 6 mths to Sept 30 23.4 (23.7) | 33.44 (52) | 2.17 (5.82) | 5.05 | Mar 31 5.5 | 20.9 | |
| Progenetics | Yr to Sept 30 1.28 (1.46) | 59.8 (54.4) | 16.4 (13.4) | 32 | 38 | 82 | 57 |
| Rebels | 6 mths to Sept 30 40.7 (50.3) | 2.94 (2.31) | 1.96 (1.72) | 0.7 | Jan 30 | 0.6 | 1.8 |
| Trinity Care | 6 mths to Sept 30 6.27 (4.95) | 0.289 (0.322) | 0.27 (4.43) | 1.6 | Dec 19 | 1.6 | 5 |
| Vodafone | 6 mths to Sept 30 1.164 (1.72) | 237.54 (262.4) | 6.23 (5.67) | 2.71 | Feb 11 2.35 | - | 4.81 |
| Yester Thermowelt | 6 mths to Sept 30 93.2 (107.3) | 13.84 (12.7) | 2.83 (25.8) | 8.25 | Jan 14 7.5 | 26 | |
| Investment Trusts | NAV (p) | Earnings (p) | EPS (p) | Current payment (p) | Date of payment | Dividends Corresponding dividend | Total net year |
| Abstract High Int | Yr to Sept 30 57.41 (74.51) | 2.57 (3.46) | 5.73 (7.21) | 1.773 | Nov 19 | 1.15 | 8.85 |
| Shorey Income | Yr to Sept 30 (-) | (0.05) | 0.05 (0.01) | 1 | Feb 27 | 1 | 2.8 |

Dividends shown in brackets. Dividends shown in brackets are for corresponding period. *After exceptional charge. **After exceptional credit. †On increased capital. #Non listed. ‡Net rental income. §Excluding windfall tax. *Already paid. ¶Fourth interim dividend.

SVENSKA SÉLECTION FUND SICAV

Société d'investissement à capital variable

Registered Office: 146, Boulevard de la Pétrasse, L-2339, Luxembourg

R.C. Luxembourg B 23 125

The shareholders of Svenska Selection Fund (the "Company") are hereby convened to attend the

EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

of the Company, to be held at its registered office at 146, Boulevard de la Pétrasse, Luxembourg at 1630 pm on Wednesday, November 26, 1997 with the following agenda:

Agenda:
1. Modification of article 16 paragraph 4 of the Articles of Incorporation, to give a new definition of the expression "Eligible State".

The new paragraph will read as follows: an "Eligible State" shall mean any country wherever in Europe, America, Asia, Africa or Oceania and Australia.

2. Miscellaneous.

Voting:

Provided a quorum of at least one half of the issued shares are present or represented at the meeting, decisions will be valid unless at the extraordinary general meeting at a majority of two thirds of the shares present or represented.

A restated version of the proposed Article of Incorporation is available for inspection and a copy thereof may be obtained from Svenska Handelsbanken SA by any shareholder on request.

Holders of bearer shares should deposit their shares at least 3 days prior to the date of the meeting in one of their chosen and shall be admitted on the basis of the evidence given therewith or in writing.

Svenska Handelsbanken SA, 146, Boulevard de la Pétrasse, L-2339 LUXEMBOURG.

The Board of Directors

BOC to focus on gas operations

By Michael Peel

BOC yesterday announced plans to increase operating profits from its industrial gases business by at least 10 per cent a year for the next 5 years.

Mr Rosenkranz said he would have a shortlist of bidders for Ohmeda, BOC's healthcare business, by December and was not planning any further acquisitions or divestments. The group would build up its gases operation through existing production facilities.

Mr Rosenkranz confirmed

that BOC planned to concentrate on developing its gases business, which accounted for 77 per cent of group sales of £3.68bn (£3.73bn).

Mr Rosenkranz said he would have a shortlist of bidders for Ohmeda, BOC's healthcare business, by December and was not planning any further acquisitions or divestments.

In the UK, 150,000 new customers were added, taking the total to 3m. The group's market share remained steady at 39 per cent.

See Lex, back page

Ferries clearance expected

By Emma Tucker in Brussels

Margaret Beckett, trade secretary, is today expected to clear the proposed alliance between Peninsula & Oriental Steam Navigation and Stena Line on key cross-Channel ferry services; but with substantial conditions.

The announcement is expected to be made together with a statement from the European Commission clarifying its view of the case under EU competition law. Mrs Beckett was waiting for a final decision, to be certain that the

UK authorities' verdict would not face a challenge in the European Court.

The conditions are likely to include a review of the deal after three years and a price capping regime on the companies' merged operations to avoid steep price increases.

The deal will add 40,000 barrels of oil to BP's daily output and 380m barrels to its reserves.

Terms disclosed yesterday show that BP will also

acquire a 30 per cent net interest in Russia, an East-Siberian company which owns the 25 trillion cu ft Kovyktinskoe gas field.

The field will add 40,000 barrels of oil to BP's daily output and 380m barrels to its reserves.

David Varney, BP's chief

said: "The Karachaganak agreement gives BP a leading role in one of the world's largest oil and gas fields, substantially larger than any North Sea discovery."

BG said it expected Karachaganak to represent 10 per cent of BG's asset value outside Transco, its pipeline company, by the end of the century.

The second agreement concerns the North

INTERNATIONAL CAPITAL MARKETS

Canary Wharf securitisation raises £550m

INTERNATIONAL BONDS

By Edward Luce

and Samer Iskander

refinance Canary Wharf's existing debt, most of which is short-term, and for working capital.

The fixed-rate tranches were priced to yield 72 basis points, 92 basis points and 125 basis points over gilts, respectively.

Japan's EXIM BANK chose a bold moment to hit the market with a 10-year D-Mark bond, but the deal was considered a success. Officials at Paribas, sole lead manager, said that the bond - Exim's first D-Mark offering since its five-year issue in 1995 - was priced to reassure investors worried about Japan's financial crisis.

At 24 basis points over 10-year bunds, the bond was priced to give some pick-up over existing AAA-rated 10-year D-Mark deals. The Asian Development Bank and OKB, the Austrian finance house, are trading at about 21 points over bunds.

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Officials said the issue, which tightened to 23.5 basis points in the secondary market, was well-received, with about 50 per cent going to German investors. "We are already short on the deal," said one.

ABBEY NATIONAL became the first UK bank to target Japanese retail investors. Until recently, commercial banks were not allowed to sell bonds to Japanese

individuals. This restriction, however, was scrapped in April as part of a market reform package.

By setting a monthly coupon payment, the borrower structured the two-year deal to compete directly with Japanese one-month bank deposits, which pay interest at 0.3 per cent.

The bonds' 6.10 per cent coupon offers a substantial premium to compensate

investors for assuming currency risk - the bonds are redeemed in sterling.

As part of an innovative marketing campaign Nomura, the lead manager, is linking the bonds to Sherlock Holmes, the detective created by Arthur Conan Doyle (Abbey National's London headquarters is located on Baker Street, where the fictional character was said to have lived).

Gazprom, Russia's largest company, plans to issue a rouble-denominated bond next year, it said yesterday.

Plans for the issue follow the announcement this week of a ground-breaking strategic partnership with Royal Dutch/Shell.

Gazprom to issue rouble bond

By Chrystia Freeland

in Moscow

Gazprom, Russia's largest company, plans to issue a rouble-denominated bond next year, it said yesterday.

Plans for the issue follow the announcement this week of a ground-breaking strategic partnership with Royal Dutch/Shell.

Gazprom has been expanded by several new markets, including China, India, Indonesia, South Korea, Chile, Venezuela, Hungary, Greece, Egypt and Israel. The portfolio is calculated by monitoring one, two and three-month foreign exchange forward contracts on the emerging market currencies.

J.P. Morgan will today launch a new emerging market local currency index to reflect growing investor demand for high-yielding debt in non-dollar denominated instruments. The new index - Emerging Markets Local Index Plus - expands upon J.P. Morgan's original ELMI index by adding 14 countries to the original 10.

Officials at J.P. Morgan pointed out that the index had outperformed the bank's dollar-denominated emerging market bond index during the turmoil in recent weeks.

This confirmed the growing investor view that local currency debt provides a hedging opportunity for emerging market investors.

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The deal will be sealed by a \$1bn international convertible bond issue early next year. After it was postponed last week due to market conditions, Shell has agreed to invest up to \$1bn in the issue, with another \$1bn going to institutional investors.

Mr Alexander Semenjaka, a Gazprom board member, said the domestic bond issue was part of the gas group's efforts to develop a broader range of channels for attracting capital. Initially, the company hoped to borrow \$400m on the domestic debt market.

In its first foray into the

rouble debt market, Mr Semenjaka emphasised that the company's chief objective would be to set an attractive benchmark for its debt, rather than to maximise the amount it borrowed.

Analysts said any surprises on retail sales, particularly from a figure showing an exceptionally strong rebound from September's 1.9 per cent decline, would hit the long end of the yield curve hardest, with the short and already on guard for another interest rate rise.

ITALIAN BTPs were

among the few to post any real gains, with the December future settling 0.13

higher at 112.40. The 10-year spread over bunds narrowed further, to 55 basis points.

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COMMODITIES AND AGRICULTURE

Guinea minister attacks alumina partners

By Kenneth Gooding,
Mining Correspondent

A bitter attack on some of the aluminium companies that have dominated the bauxite and alumina industry in Guinea has been made by Fassine Fofana, minister of natural resources and energy for the west African country.

"For decades Guinea has been in the grip of international industrial partners who have organised their relationship with the country in such a way that they could access cheap resources without

investing on a regular basis and without generating added value locally," suggested Mr Fofana.

"All this was made possible through the control of management and through the use of marketing organisations that could monitor the whole process and predict Guinea from any direct access to the market."

Guinea is the second largest producer, after Australia, of bauxite, the raw material for alumina, from which aluminium is made.

Mr Fofana was particularly critical of the companies that are his

government's partners in Friguia, Guinea's alumina producer that filed for bankruptcy in April.

These companies - Alcan of Canada, Aluminium Pechiney of France, Hydro Aluminium of Norway, and Noranda Aluminium of Canada - are in dispute with the government and have asked a Geneva tribunal to arbitrate.

The minister said the so-called Frialco consortium - led by Pechiney - controlled production, technical, administration and marketing operations of Friguia and monitored bank financing.

"The collapse of Friguia is a direct consequence of a lack of investment and interest by its controlling shareholder and the squeeze conducted in collaboration with the institution providing financing to Friguia," he insisted.

Pechiney said it did not want to sending the allegations in detail because of the arbitration case. But it said Friguia had been self-financing, reflecting some contribution by shareholders.

The company said Friguia was run by private investors between 1960 and 1973 and this was a good

example of adding value to Guinea's bauxite. In 1973 a "mixed economy" status was imposed on the company. Private investors lost control of management and technical assistance was their only input. "Not surprisingly, the mixed economy status, with the involvement of ministers as chairman and other administrative officers, triggered a deterioration of profitability which led to losses."

Pechiney said proposals were made in 1994 to privatise Frialco and increase its output but were not taken up by the authorities.

Oil drifts as talks continue

MARKETS REPORT

By Gary Mead

The intricate negotiations between Iraq and the UN - which inched forward yesterday with word that both sides might hold talks this week in Geneva - left crude oil markets relatively directionless.

On the New York Mercantile Exchange, December crude sagged 11 cents to touch \$20.15 but traders saw that level as fairly firm; it later recovered to \$20.19 a barrel.

Further fall-out from the recent turmoil on the Asian markets, which is seen as precipitating a slowdown in economic activity in the region, hit copper on the London Metal Exchange.

Copper's three-month price dipped to the lowest point since October 1996, closing at \$1,892 a tonne. Lead, zinc, nickel, tin and aluminium were also all treated with some disdain - zinc closed at a 2½-year low of \$565, down \$13, while nickel ended at \$6,120, down \$125.

Gold, meanwhile, remained fragile, the afternoon London "fix" just 45 cents an ounce higher than in the morning, at \$304.10.

Soft commodities were handled bearishly on the London International Financial Futures Exchange: March cocoa closed at \$1,029 a tonne, down \$13, with continued strong harvest reports from Ivory Coast dogging the market. The January contract for coffee ended \$20 lower at \$1,625 a tonne.

Platinum in short supply

By Kenneth Gooding

Platinum demand will substantially outpace supply this year for the first time since 1988 and there will be a further supply deficit in 1998, according to Johnson Matthey, the world's biggest platinum marketing group.

Tightness of supply boosted platinum prices from less than \$350 an ounce in February to a peak of \$495 in June. JM suggests that prices will range from \$400 to \$450 an ounce in the next six months. Platinum was \$391 in London yesterday.

JM forecasts that supply will fall from 4.96m ounces last year to 4.7m ounces in 1997 while demand will rise from 4.96m ounces to 5.09m ounces.

Supply problems originated when Russia failed to export any platinum in the first half of this year because of bureaucratic hold-ups and political infighting.

Consequently, Russia's exports are predicted to fall from 1.22m ounces to 700,000 ounces this year. JM expects no increase in Russia's exports next year because the country's platinum stocks are virtually gone, and estimates that Russia's annual production is only

600,000 ounces. "There is no prospect of higher shipments from South Africa [the biggest producer] where producers are operating close to capacity," says Alison Cowley, author of the review.

JM suggests demand for platinum for jewellery this year will rise from 1.99m ounces to 2.07m ounces while its use in car catalysts - for removing pollutants from engine exhaust fumes - will slip from 1.88m ounces to 1.83m ounces.

Platinum jewellery demand has been lifted this year by a 50 per cent rise in China (including Hong Kong), to 300,000 ounces. China has overtaken Japan as the biggest platinum jewellery market.

In its assessment of prospects for other platinum group metals, JM suggests palladium prices will remain above \$190 an ounce but that Russia, the biggest producer, will attempt to contain any rallies above \$230.

Rhodium, also used in car catalysts, is forecast to be in deficit this year, with supply at 440,000 ounces compared with demand of 449,000 ounces.

Platinum 1997 Interim Review, from Johnson Matthey, 78 Hatton Garden, London EC1N 8JP, UK. Free.

Aluminium groups show confidence in demand

By Nikki Tait in Chicago and Kenneth Gooding in London

The aluminium industry is sending clear signals that it expects strong demand both in the long term and the immediate future.

Among the indications yesterday was the signing of a memorandum of understanding between Norsk Hydro of Norway and Qatar Petroleum, the state-owned organisation, for a US\$1bn aluminium smelter that will be the biggest in the Gulf.

Norsk Hydro will have 50 per cent of the project and raise the finance. The smelter is expected to start up in 2002 at an annual rate of 200,000 tonnes and be expanded eventually to 400,000 tonnes.

Meanwhile, Alcoa World Alumina and Chemicals, the joint venture between Alcoa in the US and Australia's WMC, is to go ahead with a \$183m expansion of the Wagerup alumina refinery in Western Australia - the second time in a month the company has moved to add to its refining capacity.

The expansion will add around 44,000 tonnes a year to Wagerup's capacity, to 2.15m tonnes a year by mid-1998. It said the expansion was the "first stage" of a programme to lift capacity to 3.3m tonnes a year.

The move comes amid a wave of expansion moves in Australia's bauxite and alumina sector. Reynolds Metals of the US recently announced plans to spend

\$600m to raise Worsley Alumina's annual alumina capacity by 1.2m tonnes to 3.1m tonnes a year. Alcan Aluminium is also investing \$1.2bn in a new bauxite mine in North Queensland.

Reynolds is to restart pro-

duction at its Trontdale smelter in Oregon, which was shut down at the end of 1991. But only 25,000 tonnes of the plant's 121,000 tonnes of capacity will be used at first, beginning in March. This will compensate Reynolds for a loss of output at Volta Aluminium in Ghana because of drought.

Pechiney of France is to restart the 10 per cent of capacity shut down in 1994 at its 125,000 tonnes a year Saint-Jean-de-Maurienne aluminium smelter in the Alps.

Meanwhile, Alcoa World Alumina and Chemicals, the joint venture between Alcoa in the US and Australia's WMC, is to go ahead with a \$183m expansion of the Wagerup alumina refinery in Western Australia - the second time in a month the company has moved to add to its refining capacity.

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|-------------------------------------|------------|------|-------|-------|----------------------------|------------|------|-------|-------|-------------------------------------|------------|------|-------|-------|---------------------------|------------|-------|-------|-------|----------------------------|------------|------|-------|-------|
| Professional Investment Consultants | | | | | Aarun Funds | | | | | BMS Deutsche Gen. F. Wertpapierdep. | | | | | INVESTCO Asset Management | | | | | Magnus Funds | | | | |
| Pioneer Ltd 2 | \$1.329 | 1.28 | | | on Money Fund Administrat. | | | | | DMG Diversified Fund | \$241.95 | | | | India Agri Fund Ltd | \$183.69 | 10.01 | | | Orion Capital Advisors Ltd | | | | |
| Pioneer Ltd 3 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Growth Fund | \$103.69 | 10.01 | | | Orion Capital Fund Ltd | \$103.69 | | | |
| Pioneer Ltd 4 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Ind. Fund | \$103.69 | 10.01 | | | Orion Global Fund Ltd | \$103.69 | | | |
| Pioneer Ltd 5 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 6 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 7 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 8 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 9 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 10 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 11 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 12 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 13 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 14 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 15 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 16 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 17 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 18 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 19 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 20 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 21 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 22 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 23 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 24 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 25 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 26 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 27 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
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| Pioneer Ltd 29 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 30 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 31 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 32 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 33 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 34 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 35 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 36 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 37 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 38 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 39 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | \$103.69 | | | |
| Pioneer Ltd 40 | \$1.329 | 1.28 | | | Arca Fund | \$116.85 | | | | DMG Diversified Fund | \$241.95 | | | | India Inv. Fund | \$103.69 | 10.01 | | | Orion Inv. Fund | | | | |

LONDON STOCK EXCHANGE

Footsie's 156-point rally grinds to a halt

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

An uneasy calm descended on London's equity market yesterday, with the 3.3 per cent rally in share prices over the previous two sessions, induced by a good rally across far eastern markets, giving way to a much more cautious attitude.

Always on the back foot, the FTSE 100 index finished a relatively quiet session down 21.6 at 4,848.4, well above the day's low, but never threatening to regain its recent upward momentum.

The market's other indices

were similarly weak, with the downside emphasis again on the smaller issues. The FTSE Small-Cap index, which has been left behind somewhat in recent days, lost 3.1 to 2,280.0.

The FTSE 250 index dipped only 3.4 to 4,623.4, sustained, according to dealers, by a raft of positive trading results from many of its constituents, notably Great Portland, the property group, De la Rue, the paper and printing company, and Perpetual, the fund management group.

A double digit dividend increase and a proposed buy-back of 10 per cent of its own shares prompted Northern Ireland Electricity shares, another of the

big winners in the 250 index. Of the Footsie constituents reporting yesterday, BOC and Vodafone were in line with expectations, but the latter took a hit from the introduction of a more aggressive stance on mobile phone tariffs. The front line index was also burdened by a steep fall in Enterprise Oil, after a disappointing update from the company.

Economic news from both sides of the Atlantic was seen by strategists as market-positive. On the domestic front, the public sector borrowing repayment for last month came in at an encouraging £5.7bn, while in the US the October inflation monthly rise of

0.2 per cent was well received. Wall Street kicked off on a firm note, with the Dow Jones Industrial Average posting a 20-points plus gain within five minutes of the opening bell. It maintained its position until London closed for the day, when the Dow slipped into negative territory.

London was locked in a relatively narrow trading range all day, retreating to a low of 4,827.0 in mid-morning before stabilising later in the session, despite the uneven trend in the US.

Turnover was a light 671.4m shares, spread evenly between Footsie and other stocks.

Traders said London was drifting in the run-up to Christmas,

which could well see a general market consolidation and might prompt the big institutions to drive up prices of the poorer performers, such as Halifax and the Woolwich.

Goldman Sachs, the investment bank, reduced its 12-month Footsie forecast from 5,600 to 5,250, although it expected UK equities to outperform Europe.

It cited five reasons for its stance: attractive relative valuations; its view that strong economic growth and high interest rates are not necessarily negative for equities; the prospect of Emu entry; possible currency depreciation; and the UK's defensive qualities.

Enterprise hit by report

A surprise statement from Enterprise Oil over its production output sent the share price spinning downwards yesterday.

The announcement that the company's production target was being slashed by 45,000 barrels a day sent the shares down almost 8 per cent at worst. The stock ended the day 43 or 6.6 per cent off at 609p, easily the worst performance in the Footsie. And turnover of 6.5m shares was one of the highest on record.

In terms of net asset value, and profit, the slide was generally reckoned to be overdone. But the extra 30p or so represented concern over the company's general creditability. One analyst said: "Only nine months ago Pierre Jungs was telling everyone how fantastic everything was and now all their projects are slipping back." The problem is that Enterprise is undertaking downgrades against a backdrop of hype."

The statement only hit the market late yesterday and brokers were busily adjusting their forecasts downwards. Dealers said ABN Amro Hoare Govett had reduced its net asset valuation by 10 to 448p. However, Neil Perry at HSBC James Capel said the sell-off was an over-reaction.

Insurers firm

United Assurance lifted 5 to 506p with Credit Lyonnais Laing said to be enthusing about the yield benefits of the stock for income funds.

Composite insurers remained firm despite their geared exposure to a weak overall market. Credit Lyonnais was also behind the strength there. The broker turned slightly more positive on the sector because of recent heavy falls. Guardian Royal Exchange was up 2 at 300p and Royal & Sun Alliance 5 higher at 532p.

Banknote and cash handling systems producer De La Rue rose 12% to 410p on stronger-than-expected first-half earnings figures.

The company reported a 6.6 per drop in first-half profit to 256.3m but the figure was greeted with relief by analysts, who were expecting 245m at best. BOC Group moved up 12 to 571p in response to preliminary results slightly ahead of market expectations. Some analysts were reducing forecasts for the year to September 1998 because of the impact of the strong pound but the 1997 figure of £445.2m was marginally higher than last year's. Favourable conditions in industrial gases counteracted currency negatives.

News that the government has denied British Aerospace £120m in public funds

for its participation in two new Airbus aircraft cast a shadow over the stock.

The shares fell 5 to 154.5p. Dealers said bargain-hunting in the day had prevented a further decline in the stock. Salomon Brothers rates the shares a "buy". In a recently published 40-page note, the US investment bank said: "Investors and analysts have been very focused on how BAe can best pursue the European defence industry consolidation process. We believe this misses the point that BAe's investment upside flows from the exploitation of its cash." It added: "The European integration process may provide earnings enhancing ways of spending some of that cash, but there are other investments, including BAe buying back its own shares which could be equally or even more rewarding."

FT 30 INDEX

Nov 18 Nov 17 Nov 14 Nov 13 Nov 12 Yr ago High Low

FT 30 3147.4 3153.1 3093.5 3072.8 3091.1 2707.8 4840.3 2668.8

Ord. div. yield 3.61 3.58 3.68 3.70 3.67 4.09 4.22 3.29

P/E ratio net 20.39 20.46 19.97 19.98 20.01 16.88 22.32 15.80

P/E ratio tot 20.11 20.18 19.89 19.81 19.74 16.72 20.22 15.71

FT 30 ex compnrs: high 3403.3 3160.9; low 434.2 2605.0. Exch Date: 1/10/97

FT 30 hourly changes

Open 8.00 10.00 11.00 12.00 13.00 14.00 15.00 16.00 High Low

3162.8 3159.1 3149.8 3146.7 3145.1 3143.1 3137.3 3142.8 3162.3 3165.6

Nov 18 17 Nov 14 Nov 13 Nov 12 Yr ago

SEAD (barrels) 45,802 54,970 48,705 49,929 48,948 56,845

Exch turnover (Emft) - 144 247.7 231.0 214.7 214.7 212.3

Equity barometer - NA 38,985 34,008 38,740 32,740 23,902

Shares traded (mt) - NA 773.2 661.1 656.0 599.0 367.3

(Excluding inter-market and overseas turnover but including CSM turnover)

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FT 30 weekly and monthly data

Total P/Es 570 Total Highs 41 Total contracts 46,773

Total Lows 121 Total P/Es 20,684

Same 1,488 Total P/Es 25,089

Nov 12 Data based on Equity shares listed on the London Share Service.

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

| | +/- High | Low | Yld | P/E | Per | +/- High | Low | Yld | P/E | Per | +/- High | Low | Yld | P/E | Per | +/- High | Low | Yld | P/E | Per | +/- High | Low | Yld | P/E | Per | +/- High | Low | Yld | P/E | Per |
|--------------------------------|----------|---------|-----|-----|-----|----------|-------|-----|-----|-----|----------|-------|-----|-----|-----|----------|-------|-----|-----|-----|----------|-------|-----|-----|-----|----------|-------|-----|-----|-----|
| EUROPE | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Austria (Nov 15 / Sat) | -0.5 | 365.145 | 1.4 | 4.8 | 1.4 | 100.20 | 97.90 | 1.4 | 3.0 | 1.4 | 100.20 | 97.90 | 1.4 | 2.4 | 1.4 | 100.20 | 97.90 | 1.4 | 2.4 | 1.4 | 100.20 | 97.90 | 1.4 | 2.4 | 1.4 | 100.20 | 97.90 | 1.4 | 2.4 | |
| Belgium (Nov 15 / Sat) | -0.5 | 210.500 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Denmark (Nov 15 / Sat) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Finland (Nov 15 / Sat) | -0.5 | 210.500 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Iceland (Nov 15 / Sat) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Ireland (Nov 15 / Sat) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Italy (Nov 15 / Sat) | -0.5 | 210.500 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Netherlands (Nov 15 / Sat) | -0.5 | 210.500 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Portugal (Nov 15 / Sat) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Spain (Nov 15 / Sat) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Sweden (Nov 15 / Sat) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| United Kingdom (Nov 15 / Sat) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| MIDDLE EAST | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Egypt (Nov 18 / Sunday) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Iraq (Nov 18 / Sunday) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Iran (Nov 18 / Sunday) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Kuwait (Nov 18 / Sunday) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Saudi Arabia (Nov 18 / Sunday) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Turkey (Nov 18 / Sunday) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| ASIA | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| China (Nov 18 / Sunday) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Hong Kong (Nov 18 / Sunday) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| India (Nov 18 / Sunday) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Indonesia (Nov 18 / Sunday) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | |
| Japan (Nov 18 / Sunday) | -0.5 | 200.200 | 1.2 | 4.8 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | 1.2 | 100.00 | 97.50 | 1.2 | 2.5 | | | | | | | | | | | | | | | | |

From *Science* 11/10/2006

NEW YORK STOCK EXCHANGE PRICES

GLOBAL EQUITY MARKETS

US INDICES

| | Nov 17 | Nov 14 | Nov 13 | 1997 High | 1997 Low | Since compilation |
|-----------------------------|---------|----------|------------|-----------|-------------|-------------------|
| Industrials | 7692.22 | 7572.48 | 7407.78 | 8888.31 | 6081.65 | 8888.31 |
| | (1.12) | (1.14) | (0.62) | (1.14) | (0.62) | (1.12) |
| Home Bond | 104.95 | 104.44 | 104.40 | 104.78 | 104.19 | 104.95 |
| | (0.51) | (0.51) | (0.51) | (0.51) | (0.51) | (0.51) |
| Utilities | 314.62 | 310.69 | 308.45 | 338.22 | 222.07 | 338.22 |
| | (0.51) | (0.51) | (0.51) | (0.51) | (0.51) | (0.51) |
| DJ Ind. Div. Yield | 773.17 | (734.47) | Low 781.84 | (7451.03) | Theoretical | |
| Dj's High | 772.04 | (734.47) | Low 757.07 | (7453.03) | (Actual) | |
| Standard & Poor's Composite | 1462.33 | 1423.35 | 1415.65 | 1842.12 | 751.01 | 1842.12 |
| | (4.00) | (4.00) | (4.00) | (4.00) | (4.00) | (4.00) |
| Industrial & Financials | 1105.31 | 1082.15 | 1072.17 | 1116.82 | 582.42 | 1116.82 |
| | (1.16) | (1.16) | (1.16) | (1.16) | (1.16) | (1.16) |
| Financials | 1110.00 | 1085.35 | 1072.27 | 1118.84 | 525.75 | 1118.84 |
| | (1.16) | (1.16) | (1.16) | (1.16) | (1.16) | (1.16) |
| Others | 404.95 | 405.05 | 405.05 | 418.47 | 314.21 | 418.47 |
| | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) |
| Amer. Corp. | 679.00 | 672.52 | 658.35 | 701.20 | 342.10 | 722.80 |
| | (7.50) | (7.50) | (7.50) | (7.50) | (7.50) | (7.50) |
| NASDAQ Corp | 1614.11 | 1583.31 | 1577.74 | 1741.20 | 1207.00 | 1741.20 |
| | (1.16) | (1.16) | (1.16) | (1.16) | (1.16) | (1.16) |
| Retail 2000 | 435.65 | 424.41 | 423.35 | 465.25 | 326.25 | 465.25 |
| | (1.16) | (1.16) | (1.16) | (1.16) | (1.16) | (1.16) |

US DATA

| US MARKET ACTIVITY | | NYSE | | Nov 17 Nov 14 Nov 13 | |
|-------------------------|---------------------|---------|---------|----------------------|----------------------|
| ● Volume (million) | | Nov 16 | Nov 14 | Nov 13 | Issues Traded |
| | | 104.70 | 104.40 | 104.40 | 5,445 3,428 3,207 |
| NYSE | | 594,450 | 635,780 | 648,467 | 2,274 1,249 1,147 |
| | | (0.65) | (0.65) | (0.65) | (0.65) (0.65) (0.65) |
| Actors | 31,131 | 35,057 | 33,978 | Underpriced | 461 322 321 |
| | | (0.10) | (0.10) | (0.10) | (0.10) (0.10) (0.10) |
| New Hights | 158 | 227 | 227 | New Lows | 27 63 67 |
| | | (0.16) | (0.16) | (0.16) | (0.16) (0.16) (0.16) |
| ● RSI MARKET ACTIVITY | Volume: 604,400,000 | | | | |
| ● ACTIVE STOCKS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Catering Corp | 18,712,400 | 894 | 894 | +4 | +1.1% |
| Waste Mgmt. | 5,425,700 | 246 | 246 | -1 | -0.4% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,581 | +1.1% |
| | | (0.00) | (0.00) | (0.00) | (0.00) |
| ● ROSE TRADING ACTIVITY | Volume: 584,400,000 | | | | |
| ● ACTIVE STOCKS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Auto Part. | 33 | 33 | 33 | +0.5 | +1.5% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,581 | +1.1% |
| | | (0.00) | (0.00) | (0.00) | (0.00) |
| ● BIGGEST MOVERS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Actor Part. | 33 | 33 | 33 | +0.5 | +1.5% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,581 | +1.1% |
| | | (0.00) | (0.00) | (0.00) | (0.00) |
| ● BIGGEST MOVERS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Actor Part. | 33 | 33 | 33 | +0.5 | +1.5% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,581 | +1.1% |
| | | (0.00) | (0.00) | (0.00) | (0.00) |
| ● BIGGEST MOVERS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Actor Part. | 33 | 33 | 33 | +0.5 | +1.5% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,581 | +1.1% |
| | | (0.00) | (0.00) | (0.00) | (0.00) |
| ● BIGGEST MOVERS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Actor Part. | 33 | 33 | 33 | +0.5 | +1.5% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,581 | +1.1% |
| | | (0.00) | (0.00) | (0.00) | (0.00) |
| ● BIGGEST MOVERS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Actor Part. | 33 | 33 | 33 | +0.5 | +1.5% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,581 | +1.1% |
| | | (0.00) | (0.00) | (0.00) | (0.00) |
| ● BIGGEST MOVERS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Actor Part. | 33 | 33 | 33 | +0.5 | +1.5% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,581 | +1.1% |
| | | (0.00) | (0.00) | (0.00) | (0.00) |
| ● BIGGEST MOVERS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Actor Part. | 33 | 33 | 33 | +0.5 | +1.5% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,581 | +1.1% |
| | | (0.00) | (0.00) | (0.00) | (0.00) |
| ● BIGGEST MOVERS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Actor Part. | 33 | 33 | 33 | +0.5 | +1.5% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,581 | +1.1% |
| | | (0.00) | (0.00) | (0.00) | (0.00) |
| ● BIGGEST MOVERS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Actor Part. | 33 | 33 | 33 | +0.5 | +1.5% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,581 | +1.1% |
| | | (0.00) | (0.00) | (0.00) | (0.00) |
| ● BIGGEST MOVERS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Actor Part. | 33 | 33 | 33 | +0.5 | +1.5% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,581 | +1.1% |
| | | (0.00) | (0.00) | (0.00) | (0.00) |
| ● BIGGEST MOVERS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Actor Part. | 33 | 33 | 33 | +0.5 | +1.5% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,581 | +1.1% |
| | | (0.00) | (0.00) | (0.00) | (0.00) |
| ● BIGGEST MOVERS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Actor Part. | 33 | 33 | 33 | +0.5 | +1.5% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,581 | +1.1% |
| | | (0.00) | (0.00) | (0.00) | (0.00) |
| ● BIGGEST MOVERS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Actor Part. | 33 | 33 | 33 | +0.5 | +1.5% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,581 | +1.1% |
| | | (0.00) | (0.00) | (0.00) | (0.00) |
| ● BIGGEST MOVERS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Actor Part. | 33 | 33 | 33 | +0.5 | +1.5% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,581 | +1.1% |
| | | (0.00) | (0.00) | (0.00) | (0.00) |
| ● BIGGEST MOVERS | | | | | |
| Monday | Stocks | Open | Close | Day's | Day's |
| | | price | price | change | close % |
| Actor Part. | 33 | 33 | 33 | +0.5 | +1.5% |
| Actor | 1,010,708 | 744,255 | 784,842 | 4,58 | |

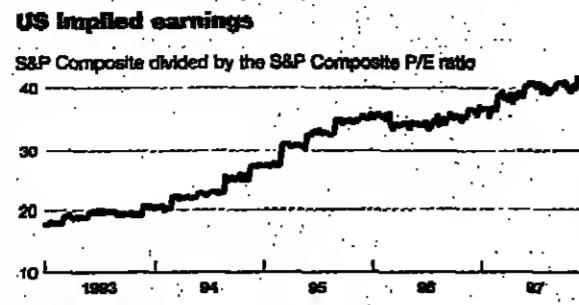
Tokyo recovery does little to calm nerves

WORLD OVERVIEW

World markets settled down after their strong rally on Monday but there was little sense that the recent turmoil was at an end, writes Philip Coggan.

"The rally in Tokyo is a fairly isolated event," said James Montier, global strategist at NatWest Markets. "The thing that stands out is that most markets are drifting in fairly low volume. We are entering a period when equities are not going to be the best performing asset class by a long chalk. Investors should seek protection in cash."

The recovery in Tokyo did



continue for a second session, accompanying details of the Japanese government's package to revive the economy. But the performance of the rest of Asia was mixed, with the after-

math of the slide in the Korean won causing renewed doubt about the stability of other currencies. The dangers of a spiral of competitive devaluations are evident.

Dow slips as stocks take a breather

AMERICAS

US stocks took a breather yesterday following three days of strong gains as blue-chip and technology shares pulled back, writes John Lohse in New York.

By early afternoon the Dow was down 14.25 at 7,683.97. The broader Standard & Poor's 500 also fell back, off 3.82 at 942.38, while the Nasdaq composite index lost 5.88 at 1,608.23.

"There's some consolidation going on, and some meaningful resistance of the S&P 500 around the 950 level," said Bill Meehan, chief market analyst at Cantor Fitzgerald. "The pullback is very minor," he added.

Analysts expressed relief that the market had not given way to a widespread sell-off, as it has following recent rises.

Shares in AT&T jumped 22% or more than 5 per cent at \$61.42 after two analysts, one at Lehman Brothers and the other at Sanford C. Bernstein, repeated their "buy" rating for AT&T's stock.

Investors were reminded of uncertainties surrounding the effect of the Asian currency and markets crises on US multinationals when Avon Products issued a warning to the market.

The stock plunged \$8.42 or more than 13 per cent to \$56.42 as analysts cut their rating after the cosmetics company issued a warning late on Monday about fourth-quarter earnings.

Weakness in Asian and Latin American markets triggered the announcement.

Some expect this to be an initial sign of further reductions in earnings estimates due to instability overseas. "It's a general worry about the economic aftermath, and investors are edgy," said

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São Paulo drops back

SAO PAULO slipped back after Monday's gains and by early afternoon the Bovespa index had lost 344 or 3.8 per cent to 8,739. Volume was below average at R\$217m.

Telebras, the federal telecommunications group, moved back R\$4.50 or 4 per cent to R\$107.50.

MEXICO CITY cut its losses on moderate buying in the wake of strong third-

quarter gross domestic product figures. The IPC index was down 38.95 or 0.85 per cent at 4,549.35 but off a low of 4,524.08.

LIMA slipped on profit-taking, triggered by a lacklustre session in New York and continuing jitters over volatile world markets, traders said. The general index fell 7.25 or 0.4 per cent to 1,785.08.

Kuala Lumpur hit by UE move

ASIA PACIFIC

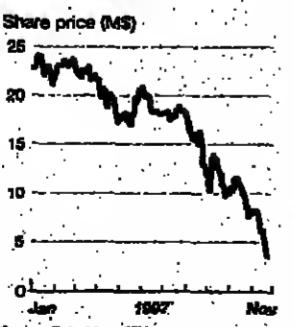
News that United Engineers, a Malaysian infrastructure company, had bought a 32.6 per cent stake in its controlling shareholder, Renong, triggered a 7 per cent fall in KUALA LUMPUR.

UE, one of the market's more sought-after stocks because of its strong cash flows and growing business, lost 40 per cent of its value on the news, falling M\$3.39 to M\$3.86. Following the move, most of its cash will be diverted into propping up heavily-indebted Renong.

Analysts said the deal showed that there was something wrong with corporate Malaysia. "We have seen this before and it is called Japan," said David Bates at Paribas Asia Equity. "Investors are terrified Malaysia is going down the same route, with cash-rich companies bailing out parents' or affiliates' debts. It has put the fear of God into companies with large amounts of cash."

The deal hit other blue-chip shares regarded as solid investments following this autumn's market turmoil. Sime Darby, a heavily-indebted conglomerate, fell

United Engineers (Malaysia)



M\$0.30 to M\$3.94. Telekom Malaysia shed M\$1.20 to M\$3.15 on reports it might buy a stake in Time Telecommunications, another Renong unit.

The composite index plummeted 45.20 to close at 622.09, its lowest level since January 1993. Decliners led gainers 751 to 30, with 40 shares unchanged and 74 untraded.

TOKYO posted another significant rise with the Nikkei 225 average gaining 44.25, or 2.72 per cent, to 16,726, helped by a hint from Ryutaro Hashimoto, the prime minister, that public funds might be used to sup-

port the troubled financial system, writes Pouli Abrahams.

The Nikkei has risen 11 per cent this week following the government's decision on Monday to let Hokkaido Takushoku, the country's 10th largest bank, go bust.

After the market closed, however, Mr Hashimoto was reported as denying that he was considering using public funds to prop up the banking system.

The Nikkei's intra-day low was 16,068 but at one point it broke through the 17,000 mark to reach 17,006. Turnover continued to be heavy, with 649m shares traded.

There was momentum behind the rise, with a total of 766 first-section shares were up, 388 down and 121 unchanged.

December futures rose 930 points to 16,970 after rising by their daily 1,000-point limit for the second consecutive day.

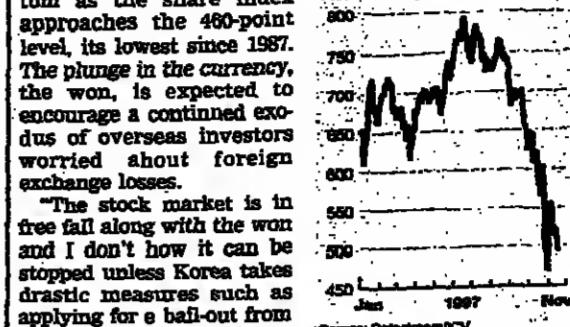
Banking and securities stocks helped the market higher, up 2.2 per cent and 1.17 per cent. Yamaiichi Securities, the troubled broker, was the most heavily traded stock, but it remained unchanged at Y106. Taiheiyo Securities fell Y11 to Y75.

EMERGING MARKET FOCUS

Seoul yet to hit the bottom

South Korea

Korea Composite



Analysts believe the Seoul bourse has not yet hit bottom as the share index approaches the 460-point level, its lowest since 1987.

The plunge in the currency, the won, is expected to encourage a continued exodus of overseas investors worried about foreign exchange losses.

"The stock market is in

free fall along with the won and I don't know how it can be stopped unless Korea takes

drastic measures such as applying for a bail-out from the International Monetary Fund," said Daniel Harwood, north-east Asia manager for ABN AMRO House

Govett in Seoul.

However, the govern-

ment is hoping that a finan-

cial stabilisation package to

be announced today will

help break the vicious cycle

that has gripped the mar-

ket, already down 37 per

cent from this year's high

of 752.29 in mid-June.

After falling 4.3 per cent

to 496.98 points on Monday

in response to the won

breaking the psychologically

important level of

1,000 to the dollar, the mar-

ket stabilised yesterday at

494.65 as it awaited the gov-

ernment's white knight.

MOSCOW rallied 6 per

cent as oil stocks rose,

boosted by Monday's corpo-

rate news in the sector. The

RTS index ended 20.9 higher

at 380.31.

ATHENS stabilised after

Monday's losses and the gen-

eral index advanced 4.56 per

cent, or 60.75 points, to

1,391.79, although trading vol-

umes were thin.

Written and edited by Jonathan Ford, Peter Hall and Martin Brice.

SOUTH AFRICA

Johannesburg ended lower

in spite of a late rally, inspired by a strong bond

market and hopes of

another good day on Wall

Street. The all-share index

closed up 9.2 points to

5,574.2.

The news sparked excite-

ment elsewhere in the insur-

ance sector, which has been

rebounding recently on restructur-

ing hopes. GAN, seen as a pos-

itive target for the losing AGF bid-

der, was the main feature,

closing up FFr2.5 at

FFr13.25.

Worms et Cie, the con-

glomerate, was also boosted

by the bid, rising FFr20.90 to

Fr 517. AGF is a white

knights bidder for Worms in

its fight against Francois

Pinault's Artamis, and the

Allianz deal was seen as

being more likely to leave this

deal intact.

Elsewhere, Sanofi was the

star as the shares responded

to clearance from the US

drug regulator for its anti-

stroke drug Clopidogrel,

developed in conjunction

with Bristol-Myers Squibb of the US. The shares advanced

Fr 28 to Fr 35.5.

Paribas was busy, with

two blocks traded, represent-

ing 0.3 per cent of the capi-

tal. The shares rose FFr1.5 to

FFr41.5.

ZURICH saw shares in

travel operator Kuoni hit

after the massacre in Egypt,

a popular winter destination

for the Swiss. Egyptian tour

are estimated to contribute

about Fr 10m of Kuoni's

Fr 100m annual operating

profits, and the shares fell

from Fr 5.375 to Fr 5.295.

Freddie Hasslauer, of Bank

Sal Oppenheim in Zurich,

said: "We can expect some

you yet to
it the bottom

ET Telecom

November 1997

FINANCIAL TIMES
REVIEW OF THE
TELECOMMUNICATIONS
INDUSTRY

Competition has lowered prices, improved quality and led to explosive growth in the cellular industry. Mobile telephony is moving away from its initial role as a high-priced niche service for business users to serve the mass market. Alan Cane reports

Mobiles for the masses

The mobile phone industry worldwide is maturing rapidly despite variations in the rate of progress between different economies and geographic regions.

This coming-of-age is revealing itself in plans for the next generation of mobile phones offering the prospect of mobile multimedia, a trend towards the convergence of fixed-line and mobile services, and the impending launch of the first hand-held satellite phone services.

The emergence of mobile phone services more than a decade ago brought a whiff of liberalisation and competition to markets which had been firmly closed.

So from the early 1980s, US subscribers have had a choice of at least two cellular operators in each geographic region, while their only freedom in fixed-line services was the right to opt for a particular long-distance carrier.

In the UK, the government was prepared to countenance four operators, two providing services suited to the business market – traditional analogue and GSM digital – and two offering nominally mass market digital services.

In mainland Europe, while fixed-line national operators are entitled to maintain their monopoly status for a further few weeks, most countries support at least two competing mobile suppliers.

The same is true of the Asia Pacific region, where in Japan, for example, handset sales have been deregulated and three digital mobile phone operators have been licensed since 1994.

Competition has broadly lowered prices, improved quality and led to an explosive growth in the cellular business.

The newsletter *FT Mobile Communications* reckons that the world cellular subscriber total will pass 200m by the end of this year, a

penetration rate of more than 4 per cent.

This figure is remarkably small. In countries which have shown the most enthusiasm for mobile phones, notably the Scandinavian countries, penetration rates – the number of mobile phones per head of population – are heading towards 50 per cent. The implication is that there is huge unsatisfied demand for mobile communications waiting to be tapped.

The principal driver for fixed-mobile convergence is the customer. According to the International Telecommunications Union, the United Nations' agency which oversees the global business, mobile is taking an increasing percentage of the value of the global telecoms market.

It rose from just under 5 per cent in 1990 to just under 20 per cent in 1995, market worth about \$600bn in 1996. Penetration is increasing as costs fall.

Susan Ablett of the consultancy Analysts, who has written a report on fixed-mobile convergence*, says mobile operators are eyeing the business of their fixed-line contemporaries for a variety of reasons.

First, competition in the mobile sector is increasing. The European Commission wants at least three operators in each country.

Second, the cost of making

new advantages of mobile. The Swedish operator Telia exemplifies this trend.

Second, mobile and fixed network operators will increasingly fight for each other's business.

Mobile operators such as Airtouch of the US or Vodafone of the UK are already significant operators with strong revenues and profits. They are capable of competing for traditional operators' customers on a global basis.

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First, competition in the mobile sector is increasing. The European Commission wants at least three operators in each country.

Second, the cost of making

a mobile call is rapidly approaching the cost of a conventional call.

In Italy at certain times of the day it is already cheaper to use a mobile than a fixed phone.

Competition and falling

prices will ensure that average revenues per subscriber will also fall. This will accelerate with the growth of pre-

paid card services. In short, mobile communications is moving away from its initial role as a high-priced niche service for business to the mass market.

Ms Ablett says: "The success of mobile networks means that incumbent operators can now foresee a time when customers could rely on mobile operators for all

their communications requirements."

An example of this trend

is Cellnet, the UK's second largest mobile operator, which cuts the cost of mobile calls for customers including British Rail, National Westminster Bank and the BBC, by routing calls through its private network rather than through the public network.

The fixed-line operators

best prepared for fixed-mobile convergence, Ms Ablett suggests, are Telecom Italia and Telia.

As Claude Déchaux and

Bernard Depouilly of the French manufacturer Alcatel point out in a recent study**, the attractions of mobile telephony to customers are so strong that a universal mobile service should be a huge success provided ways can be found to offer it at a competitive price.

But such a system, they argue would have to have the same transmission and

service quality as traditional copper or fibre optic-based fixed networks.

The poor

quality of today's services is a measure of the value customers attach to mobility.

The search for the technology to provide services of both adequate quality and capacity is engaging engineers in most of the world's leading telecoms laboratories as well as the traditional telephone handset.

There is talk of a debate or

battle between these standards. In reality, the challenge is to develop the next generation of mobile phones which will display the capabilities of a television set, a computer and a music centre

as well as the traditional

telephone handset.

The accepted European

description of this mobile phone standard of the future is UMTS. Universal Mobile Telecommunications System (UMTS) is not a standard but a specification of the kinds of services such as third generation video images on the handset screen is an obvious example.

Manufacturers are begin-

ning to refine their ideas.

Alcatel of France, Italtel of Italy, Nortel of Canada and Siemens of Germany, for example, are supporting a combination of CDMA and GSM features for the new systems. Last month, they were joined by Bosch of Germany and Motorola, the world's largest supplier of mobile phones.

Arthur D Little, the high-

technology consultancy,

says that there are likely to be different solutions to the UMTS question from the US and Japan. The battle for the portable phone of the future has hardly begun.

* Commercial Strategies for

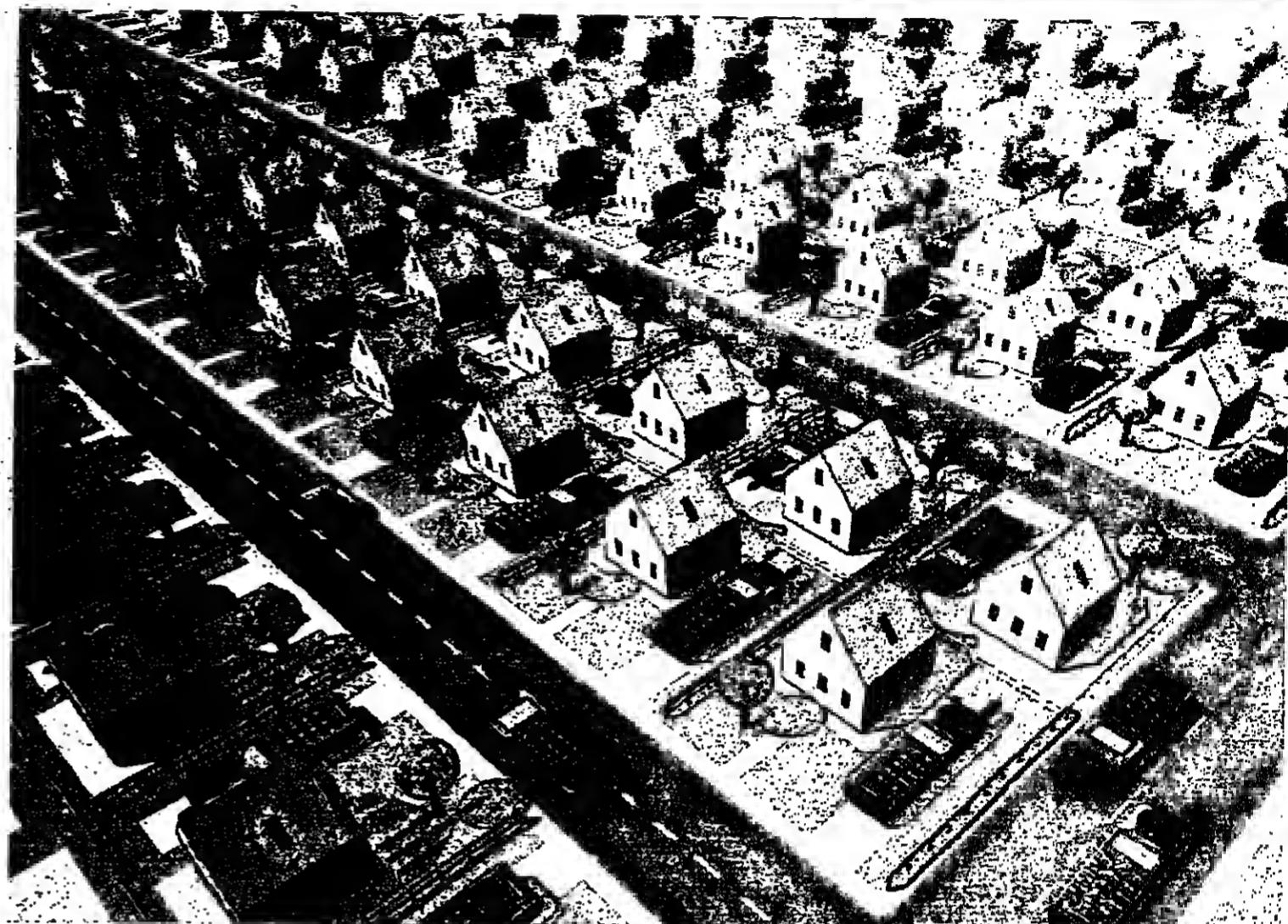
Fixed-Mobile Convergence.

Analysts, Suite 2, Quayside,

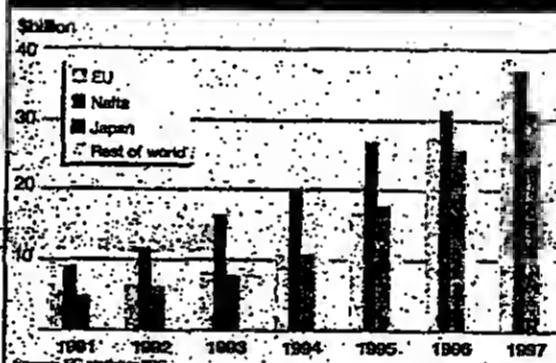
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** Alcatel Communications

Review, 3rd Quarter 1997



Mobile communications service revenues



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Mobile Communications

FT writers examine aspects of the industry, including mobile networks and convergence

Pages 3-8

Telecoms in business

Key developments in outsourcing, call centres and value-added services

Page 10 and 11

Product update

A look at new equipment and services on the market

Page 14

Callback

Dates for your diary, news, reviews and industry gossip

Page 15

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Churn is 'cause for profound concern'

It is time for the operators to reinvent their relationship with their customers

Churn is blighting the development of the telecommunications business. It is particularly virulent in the mobile sector where rates as high as 30 per cent are common.

It is already having a serious effect on individual companies and on the overall profitability of the sector.

Andersen Consulting, which has been researching the phenomenon, says it is: "a sign of a major dysfunction in the industry and a cause for profound concern".

Churn is a measure of the proportion of subscribers leaving or being excluded from a network in any given period.

High churn is an indication of an immature industry which has yet to learn the finer points of customer care and management and which has a cavalier attitude to customer loyalty.

The cost of churn is high. Andersen's figures suggest it costs operators in North America and Europe alone a total of \$4bn each year. The cost of acquiring a new subscriber is now about \$400 with an average pay-back period for the operator of three years.

So, Andersen points out,

operators with churn rates of 20 per cent will see no return on an investment in new subscribers.

On the other hand, by reducing churn by five percentage points, an operator could increase shareholder value by as much as 20 per cent.

The phenomenon has a multiplicity of causes. Fraud or bad debt is the principal reason why operators disconnect subscribers.

Customers, however, are likely to churn because of dissatisfaction with the quality or cost of service.

Moreover, the poor quality of the industry's understanding of churn is underlined by Andersen's finding that about 40 per cent of subscribers apparently defecting to another operator were in fact moving to other packages or networks offered by the same carrier.

The problem is exacerbated by the structure of the industry which uses service providers and dealers to distribute mobile services and rewards them for recruiting new subscribers.

This insulates operators from their customers while providing little incentive for the distributors to try to discourage churn.

The problem seems unlikely to go away in the near term. Increasing competition in mobile services will give customers greater choice and make it easier for them to express dissatisfaction by switching between operators.

Operators have been complacently watching the spectacular growth in subscriber numbers, but now they will have to hit the bullet.

They will have to build systems that distinguish between high-value customers, who must not be allowed to defect, and the rest.

Computerised systems can now help to identify customers likely to churn, giving operators the opportunity to attempt to change their minds.

They will have to improve mobile services until they approach the standards of quality and price set by wire-line telephony. And they will have to improve their marketing techniques.

Relationship marketing is one possibility. Here the use of a mobile phone is linked to another service from another supplier.

The "Barclaycard Phone" offered in the UK by Cellnet in conjunction with Barclaycard is one example which, according to Cellnet, has cut churn markedly.

Prices which are closer to what subscribers expect from a wireline service will both encourage greater use of the phone while reducing the sense of shock many customers experience on receiving their bill.

Prepaid cards, which do away with the need for credit checks, have a role here.

In short, the operators will have to reinvent their relationship with their customers.

ON THE LINE: Lars Ramqvist, president and CEO of Ericsson • By Joia Shillingford

Competitors in his sights

An early entry to the digital market plus strong commitment to R&D spending have proved to be decisive in Ericsson's good fortunes

Competition is intensifying among manufacturers of mobile phones as Ericsson jostles for position against a revitalised Motorola, phone makers such as Nortel, and consumer electronics giants. But Lars Ramqvist, president and chief executive officer of Ericsson, has a clear strategy for fending off competition - spending on research and development.

He says no other mobile phone maker spends as much on R&D and this gives Ericsson an advantage. This year, the Swedish company will spend 17 per cent of its turnover on research. In particular it is working on dual- and triple-mode handsets and on third-generation mobile technology.

Its dual-mode handsets, which work on Global System for Mobile (GSM) 900MHz and 1800MHz frequencies, will be available early next year. Its triple-mode handsets are a best-seller in the US where they can be used on AMPS analogue networks or on both types of digital AMPS (D-AMPS) networks.

Next-generation mobiles from Ericsson will offer high-speed data transmission and the ability to handle multimedia, the internet and videoconferencing.

This strategy of competing on technological leadership has worked for Ericsson before. In fact, one of Mr Ramqvist's biggest challenges was meeting Wall Street analysts in 1991 to tell them



Lars Ramqvist: in many ways a fitting successor to Lars Ericsson

to go ahead anyway. My argument was that we could sell mobiles as an add-on to the equipment we sold for cellular networks. At that time, there were few mobile phones around, and I thought making them available would help sell network infrastructure." So it proved.

Surprisingly, Mr Ramqvist does not say much about the difficulty of bringing people round to his point of view. Perhaps they did not dare to disagree. He talks quickly and decisively and does not expect to be interrupted or opposed.

Ericsson's first analogue phones came on to the market in 1984-85, closely followed by GSM digital phones in the early 90s. Getting into the digital market early was to prove decisive. Ericsson received large orders from Mannesmann in Germany and from the Swedish market, gaining a leading position in digital mobiles. It is still the number one supplier of infrastructure for digital cellular networks.

Ericsson's recently-released third-quarter results show the company continues to prosper, although Mr Ramqvist says: "We respect the competition and won't relax for a single moment." Third-quarter profits were more than double the same period a year ago, with pre-tax profits reaching SKr4.23bn (S\$51m) in the three months ending September 30.

Buoyant sales of mobile handsets boosted results, along with favourable currency shifts. Third-quarter revenues also rose - to SKr40.4bn, compared with SKr28.17bn a year ago. And gross margins and market share were up. For the nine months, sales increased from SKr78.2bn to SKr12.6bn, while pre-tax profits rose

Ericsson milestones

1876: Lars M Ericsson founds a repair workshop in a kitchen with a 14-year-old apprentice and Skr2,000 - half from a loan, half from business partner Karl Johan Andersson.

1878: Ericsson starts repairing foreign phones and sells 22 of his own making.

1896: Aktiebolaget L M Ericsson & Co is formed with a share capital of Skr1m.

1903: Lars Ericsson resigns from the board to concentrate on farming techniques.

1906: Lars Ramqvist joins as vice-president and head of the information systems division.

1966-87: Ericsson makes its first hand-held analogue mobile.

1988: The computer division is sold to Nokia and Ramqvist becomes head of mobile radio.

1990: Lars Ramqvist becomes president and chief executive officer of Ericsson.

1991: The first digital mobile phone systems are installed in the Nordic countries and Germany.

Lars Ericsson. Ericsson was a poor farm hand who started work at a telegraph company, then learned more by gaining government grants to work and study abroad.

Mr Ramqvist comes from a humble mining background and originally planned to become a geologist. "I always had to work for everything," he says.

His first job was as a researcher for Stora Kopparberg, which was in mining at that time. But while at Stora, he started studying for a doctorate in electronic spectroscopy (a branch of microelectronics) under Prof Kai Siegbahn, whose contributions to electron spectroscopy were awarded the Nobel Prize.

Mr Ramqvist then moved to Swedish conglomerate Johnson Industries, where he became head of research, before Ericsson hired him for his licensing experience.

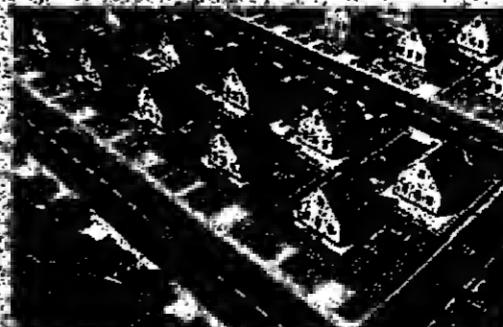
In later years, Lars Ericsson spent a lot of his time on his farm developing innovative farming techniques. Mr Ramqvist also has a farm, south of Stockholm, where he spends weekends. This has deer, moose, forestry and wheat.

Mr Ramqvist has a licence to kill 12 moose, with eight still to go this season. "Outside work, you have to do something completely different," he says.

For the energetic Mr Ramqvist this means bunting moose, deer or birds, or playing the saxophone or bassoon. He recently went hunting with the King of Sweden.

Fifty moose were killed in all, with Mr Ramqvist and the King taking three each.

FT telecoms



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MOBILE NETWORKS • By Alan Cane

Arguments delay next generation

A plethora of systems incapable of communicating with each other could evolve

The future of the next generation of mobile telephone services is being hindered by arguments over technology and standards.

Last month, the radio communications assembly of the International Telecommunications Union (ITU) gave its blessing to a standard which it hopes will give rise to a technical framework capable of accommodating different "flavours" of mobile systems.

The ITU, the United Nations agency with responsibility for global telecoms, said the standard would give the go-ahead to manufacturers and operators for the co-ordinated development of third-generation systems.

Industry experts are concerned, however, that regional interest groups are pressing ahead with their own standards, leading to

the danger of a plethora of third-generation systems incapable of communicating with each other.

Clare McCarthy of Ovum,

the IT consultancy, puts it starkly: "The third-generation systems and associated standards now look in danger of becoming as fragmented as their predecessors."

The implication is that global "roaming" with a single handset will be unlikely.

Andrew Watson of Motorola in the UK told an IBC conference in London last month: "The three major telecoms regions of the world - Europe, the US and Japan - have based the evolution of their existing mobile systems on different standards and while it was originally hoped that one worldwide standard could have been developed, it is now realised that it is not possible."

"Third generation" implies technological succession, but in reality, second generation and third generation mobile systems are likely to operate in parallel for some considerable time.

CONVERGENCE • By Fran Littlewood

Operators gear up to jump on the bandwagon

Fixed and mobile telephony will soon cease to exist as separate concepts

Privately-owned Finnish telecommunications operator Helsinki Telephone Company (HTC) this May launched the world's first convergent fixed-mobile telephony service. The move marked the beginning of the end of the separate concepts of fixed and mobile telephony as we know them, with operators across Europe gearing up to jump on the bandwagon.

The company is offering cut-price mobile calls at rates comparable to those charged by fixed-network operators, giving customers cheap mobility. Although its service is run on the company's digital cellular DCS-1800 network in Helsinki, HTC is positioning the service as an extension of the fixed network in the local-telephone loop, rather than just another cellular service.

As liberalisation in the telecoms market means the arena is becoming increasingly cut-throat, telecoms companies are looking for ways to differentiate their services. For fixed-line telephone companies, the way forward is perceived as offering wide-area mobility at low prices - particularly in view of the fact that the price of cellular-telephony services is dropping. Mobile-only operators meanwhile are keen to attract increasing numbers of subscribers by pushing rates comparable to fixed services.

Danish cellular operator Sonofon has announced its intention to launch a service similar to HTC's, also run over its DCS-1800 mobile network, which will enable cellular users to make cut-price calls from within a zone around their home or office, and standard-rate calls from anywhere else. Its aim is to move its mobile network into the fixed environment. Subscribers will have one bill for all calls.

The operator claims the price of calls from the home or office cell will be close to the local peak-time fixed-network rate of Tel Denmark, the national fixed-line operator in Denmark; about half the price of the lowest existing off-peak rate on a cellular network.

In September, Tele Danmark itself launched a fixed-mobile service, called Duet, designed to forward calls from a customer's fixed home phone to their cellular phone so that they can be reached via a single telephone number. Customers receive a single bill for the service. It costs less for users to subscribe to Duet than if they buy fixed and mobile services separately.

Tel Denmark believes that customers are not interested in whether the technology they are using is fixed or mobile, but are simply concerned with convenience.

The launch of the Duet service has fuelled specula-

tion that the company is set to re-integrate its fixed-line business with its mobile arm. And it highlights a problem with the concept of convergent services.

While cellular operators are keen to compete directly with fixed-line operators in voice telephony by cutting prices to win traffic away from the fixed networks, fixed operators with mobile subsidiaries or interests are clearly anxious to capitalise on both their fixed and mobile networks by merging the two technologies.

Swedish national telecoms operator Telia has already re-integrated its fixed and mobile divisions which operated previously as separate entities, and other companies are expected to follow suit. Companies as well as technologies are set to converge.

Convergent services across the board are inevitable, according to merchant bank Salomon Brothers. In Denmark, for example, wireless operators are already beginning to price their existing services low enough to cannibalise wireline revenues. Analysts there believe Denmark could become the first country in Europe where the majority of voice telephony is conducted via wireless technology and add that in years to come up to 70 per cent of voice telephony could be carried over mobile networks.

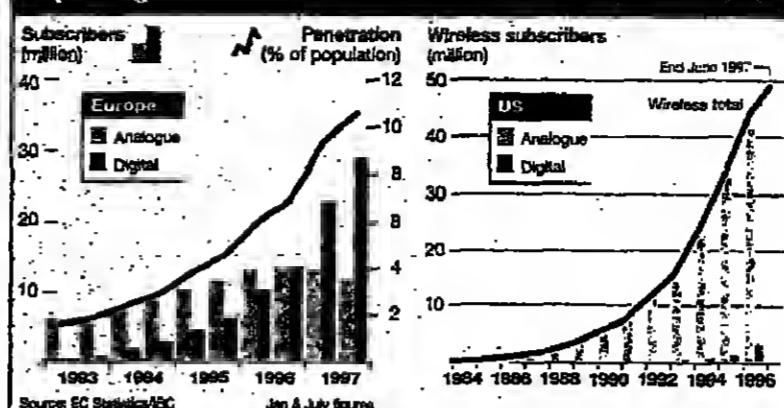
Salomon Brothers expects convergent services to spring up first in Scandinavia where the market is highly penetrated and more developed on the cellular side, then Europe-wide and eventually worldwide.

In the UK, Orange announced in September it was conducting trials on a service that would allow customers on its DCS-1800 network to make cheap calls at a similar rate to fixed-line networks by adopting the "home zone" approach. Scandinavian fixed-line operators Telia and Telset have also said they plan to launch convergent services, as has BT, as part of Viasat Interkom, the consortium in Germany in which BT is a shareholder.

Users will see the most benefits as a result of convergent services because increased competition will see prices fall significantly and more convenient joint billing systems develop, according to Elaine Aby, head of mobile at independent telecoms consultancy Schema. The market for handsets will also open up, and telecoms equipment manufacturers will shift more stock.

The picture will be mixed for operators. While mobile operators will see an increase in subscriber numbers, convergent services will put the squeeze on margins as average revenue per subscriber plummets. Fixed operators meanwhile will lose out in terms of cash generated via fixed network traffic, but will pull in revenues from affiliated mobile services.

Exploding mobile market



Richard Snyder director of Lucent Technologies' GSM product marketing group, points out: "We still have not seen an operator produce a business case for UMTS" (Universal Mobile Telephone Services, a general term to describe the standard for third-generation systems).

Manufacturers and operators are convinced, however, that UMTS will provide an answer to the demands of subscribers anxious to combine mobility with multimedia.

Work on the new systems started some five years ago when the World Administrative Radio Conference (Warc) in 1992 decided the chosen frequency bands for the new services would be

1,885MHz-2,025MHz and 2,110MHz-2,200MHz. This became known as International Mobile Telecommunications 2000 (IMT2000).

The idea was to facilitate high-speed data transmission of up to 144,000 bits of information a second (bps) on the move and 2mbps when stationary. Today's second-generation systems transmit only 9,600 bps.

Mobile networks will have to be upgraded in two areas to conform to the Warc view of IMT2000: the "air interface" between the base station and the handset, and the intelligence built into the network features.

GSM has become essentially the world standard for digital mobile telephony over the past few years and offers a rich set of features within its specification which customers will expect to see reproduced in future, more advanced systems.

Code Division Multiple Access (CDMA), a US-developed technology

which in theory offers capacity advantages over GSM, is being deployed in several US states and in Asia.

Last month, Ericsson said it would work with Nokia and Motorola in the US, the world's largest manufacturer of mobile telephony equipment, to help Japanese companies develop a wireless system capable of transmitting multimedia services.

The companies are investing in Yokosuka Park, a research centre just outside Tokyo, where at least 21 Japanese companies with interests in developing third-generation mobile systems are putting down roots.

Ericsson and its

collaborators are developing technology called Wideband Code Division Multiple Access (W-CDMA).

An alternative system, however, is being supported by Siemens of Germany, Italtel of Italy and Northern Telecom of Canada. It is called TDMA/CDMA.

Other variations such as OFDM (orthogonal frequency division multiplexing) are also in contention.

The European standards-setting body is expected to make a decision about UMTS later this year ready for the opening of services in 2002.

The introduction of satellite-based mobile services from companies such as Iridium, Globalstar, Odyssey and ICO Communications around the turn of the century adds a further dimension.

These systems are not, in the first instance, geared to multimedia. They are planned as voice services for travellers in areas where it would be uneconomic to deploy conventional cellular infrastructure.

Eventually, however, it is likely these systems will be fine-tuned to provide multimedia-on-the-move, putting flesh on the bones of the concept of "anywhere, anytime".

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CORDLESS TECHNOLOGIES • By Alice Macandrew

Some roles still remain

Cordless systems have largely been overtaken by cellular technology

The cordless telephone emerged in the mid-1980s as the must-have gizmo for those that wanted the benefits of mobility, albeit limited, without the cost of a cellular telephone, which was still out of most people's price range. It gave them their first taste of mobile communications by enabling them to make or receive calls within a radius of a couple of hundred metres from a base station in the home or office.

But the rapid development of cellular technology over the past 10 years has made the limitations of the cordless systems increasingly apparent.

Cordless technology has developed since the mid-1990s but the newer digital products introduced onto the market in the past five years – primarily CT2, Digital Enhanced Cordless Technology (Dect) and the personal band system (PHS) – carry the same restrictions as the older analogue standards, namely a lack of mobility, a key factor in the late 1990s.

The range of the base stations is less than 500 metres, significantly lower than that of most cellular base stations. This means that a telephone company that wants to use a cordless application to provide mobility over a wider area needs to install base stations every hundred metres or so to provide sufficient coverage, making it expensive to implement – much more so than a cellular system.

Moreover, the increase in competition in the cellular market (there are now 45 cellular operators in western Europe) has meant that the price of cellular services to

the end-user has plummeted over the past 10 years. So much so that in the more mature markets such as Finland where more than 38 per cent of the population has a cellular telephone, the price of a cellular call is only marginally higher than that of a fixed-line call.

There is no doubt that cordless technology still has its place as the mobile phone in the home. According to telecoms consultants Frost & Sullivan, 3.3m cordless telephones were shipped to western Europe in 1991, a figure that is expected to rise to 22.3m by the end of 2001. Of these, the vast majority are for domestic use, 76.7 per cent in 1991 and about 93 per cent in 2001.

In the US, it is estimated that about 90 per cent of homes have cordless telephones.

French manufacturer Alcatel estimates that about 30 per cent of domestic cordless phones in Europe are Dect, a percentage that is expected to increase as it pushes CT2 out of the market.

It is acknowledged that there is a place for cordless technology in the workplace, albeit in a niche market, namely those organisations such as hospitals, shopping centres and factories where on-site mobility is essential but where there is little need for mobility off-site.

For these organisations, cordless systems based on Dect and CT2 are ideal.

The spectrum that they use is publicly available, meaning that companies can install and operate the system themselves without having to pay a third-party operator to do it for them. And although there is a big initial outlay, once the system is up and running there are very few costs and all calls on-site are "free".

But in the wider area, cordless technologies are seen as having very little future. Diane Trivett, consul-



The BT OnePhone, presently on trial in BT locations, incorporates both DECT and GSM mobile voice capabilities

tant at Dataquest, says: "Cordless is big in the local area and big in business. It will be successful in its place. But not outside of that."

However, in Japan, PHS cordless systems, launched in 1995, have been incredibly successful in the wider area. PHS subscribers now account for about 21.4 per cent of the total mobile market, according to figures provided by Morgan Stanley. Yet this is widely regarded as a one-off situation.

According to Andrew Wright of the consultancy Analysys, when PHS was introduced in Japan, there was an "enormous gulf between cellular prices and fixed prices so PHS filled the gap for people that couldn't afford cellular but wanted mobility". PHS base stations also have a higher capacity than those for cellular, so they could handle the high traffic requirements of the densely-populated Japanese cities.

The conditions and requirements in the European market are different. Any wide-area cordless systems that have been launched, such as the CT2 systems in France and the Netherlands, have by now either been reined in, or shut

down altogether due to lack of subscribers.

European operators instead are concentrating on so-called "convergent services" through which they plan to offer cellular customers near-fixed-line rates for calls made within a zone around their home or office, and standard priced calls from elsewhere.

The real use for cordless technologies in the future, outside of the home and office, is seen by most as being in the wireless local loop (WLL) where operators provide fixed telephone services at fixed prices to the home or office via a wireless, rather than a fixed, connection.

Modified versions of both PHS and Dect are increasingly being used in this context to provide wireline quality on a more cost-effective basis.

Dect was selected by South Africa's state-controlled carrier Telkom in July as part of what is thought to be the largest contract on record for WLL – worth almost R2bn – to provide fixed services to users in the country's biggest cities where existing wireline infrastructure is inadequate to meet demand.

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MOBILE DATA • By Rod Newing

New systems on the way

Fresh standards and new 'information appliances' will remove barriers

Mobile data promises anywhere to any information instantly. At present, it is essentially a matter of moving small amounts of data slowly across a voice network. However, as new Internet-based applications are developed, specially designed data networks will carry large volumes of information, as well as voice communications.

Nevertheless, voice will continue to dominate mobile communications for some time to come. According to recent research carried out by Ovum, the independent telecommunications analysts, only 0.8 per cent of subscribers worldwide currently use data and this will only increase to 20 per cent by 2010.

However, independent research carried out by International Data Corporation on behalf of the Mobile Data Association points out that while voice revenue per subscriber is falling, data revenue per subscriber will increase, so it could account for as much as 50 per cent of profits.

The Ovum report, *Third Generation Mobile Systems*, points out that before the market can reach its potential, users will need to be educated about the availability, benefits, applicability and affordability of data services.

Alistair Trickett, data services business manager for Cellnet, a leading UK cellular provider that is 80 per cent owned by BT, does not believe the Ovum figures.

"Data on fixed lines has been more than 50 per cent of the total traffic since the 1980s, so the figures seem too low. They are right that

| forecast | Subscribers m | Revenue \$m |
|----------|---------------|-------------|
| 1997 | 1.08 | 1,021 |
| 1998 | 4.33 | 1,467 |
| 1999 | 10.88 | 2,551 |
| 2000 | 16.63 | 4,843 |
| 2001 | 26.84 | 7,206 |
| 2002 | 36.05 | 10,446 |
| 2003 | 42.22 | 12,237 |
| 2004 | 47.83 | 18,481 |
| 2005 | 53.47 | 24,085 |
| 2010 | 208.57 | 65,023 |

the biggest barrier to mobile data is awareness, but slow speed compared to fixed lines is also an issue, as is buying and getting support from a separate supplier for handset and PC."

These barriers will be removed by new standards offering more speed, together with a new generation of "information appliances" that act as terminals to connect users to their data much more easily.

With smaller, more powerful processors and software radios, we will be able to produce a single handset capable of supporting each of the main systems. International travellers are influential and affluent users, so they will pay more rather than carry multiple phones."

These third-generation systems did not support data and the existing second generation digital networks currently support data transfer rates of 9,600 bits/second, although Ovum expects this to increase to 33,600-56,000 for a fixed line.

Existing systems are capable of being expanded to 64,000 bits/second using multiple lines, either dedicated or shared.

The third-generation systems being planned for introduction in 2002 will support 2 million bits/second, although Ovum expects it to be limited to 144,000 bits initially.

This will be based on the fragmented IMT-2000 global standard. This is being implemented in Europe as Universal Mobile Telephone System (UMTS) and Japanese Future Public Land Mobile Telephone System (J-PFLMTS) in Japan. There is a separate IS-95 standard, referred to as Code Division Multiple Access (CDMA), in the US.

"The problem is retaining backward compatibility with our existing networks, otherwise we throw away our \$4bn investment and our customers throw away their phones," explains Trickett.

PACKET TECHNOLOGY • By Rod Newing

Keeping the user in constant touch

The systems are appropriate for mobile workers such as field service engineers

The future of mobile data is likely to be increasingly based on the use of packet technology, which is specifically designed to carry data, not existing switched technology that was designed for voice communications.

"I see an almost packetised data business that will be based on Internet protocols, because of all the emerging applications that utilise them," says Dick Lynch, chief technology officer for Bell Atlantic Wireless. "Users will carry a device like a telephone, but with a keyboard and a wireless-enabled world wide web browser."

Packet-switched data networks differ from the current cellular systems in that they keep the mobile user in constant touch by using links that are always open. This is possible because data is broken up into a series of packets, just as it is on corporate computer networks and the Internet.

These packets are mixed with packets for other users while being transmitted to or received from the base station and being routed around the network. The mixing of packets allows thousands of users to share a single radio channel. Users have a constantly open connection and are charged on the basis of the volume of data transmitted or received.

In contrast, current cellular systems need a dedicated uninterrupted connection between the sender and the receiver in order to provide an interactive voice communication. Although designed for voice communications, the technology can carry data, but users have to pay for the time the connection is being set up and used.

There are about 30 public packet data networks around the world, as well as several private networks.



Dick Lynch: 'Packet system is more cost-effective'

Ericsson's Mobitex system is used by 15 networks and Motorola's Radio Data Link Protocol (RD-LAP) is used by 10. These networks are utilised by application providers who develop industry-specific solutions operated through data terminals.

The applications are appropriate for markets that depend upon keeping fully mobile workers constantly connected to their offices: field service engineers and couriers – and services such as transportation, parcel delivery, fuel distribution, breakdown and recovery, IT services, utilities, emergency services and traffic control.

The arrival of new applications based on Internet technology will encourage the cellular service providers to add packet data to their existing switched data services. The Generalised Packet Radio Service (GPRS) should be available on Global Services for Mobile Communications (GSM) systems within 12 months and systems based on other standards shortly after that.

It will integrate voice and data, allowing users to talk while transferring information in the background. GPRS will have the cost advantage and convenience of providing a single terminal for voice and data on a single network.

GPRS is embraced in the IMT-2000 global standard for third-generation mobile systems due in 2001. They will transfer high vol-

umes of data and will replace GSM and other second-generation systems.

"GPRS will be an important enabler for third-generation systems," says Ken Blakeslee, director of business development for wireless terminals at Nortel, who is chairman of the Mobile Data Association. "It will help to move the market and applications by providing users with personalised services, starting with short text and compact graphics."

Elaine Arby, senior consultant with telecommunications consultancy Schema, says: "Specific skills are required to sell in the packet data market and you need good partnerships. The existing packet data operators sell solutions with a high level of consultancy, but the cellular companies are not used to selling solutions. The key is to understand that the solution is more individual and not as homogeneous as the cellular operators have realised in the past."

The new breed of Internet-based applications will move packet data into the white-collar area, providing constant access to Internet and corporate Intranet.

Other new applications will include business services, virtual banking, online billing, full mobile office services, home shopping, videoconferencing and on-line entertainment.

Many of the new wave of Internet applications will embrace Internet "push" technology that currently sends important information to the user's desktop. It will soon be delivered direct to users, wherever they are. "The user will be logged on all the time, which will encourage them to move from traditional switched systems," says Mr Lynch. "Packet system is more cost-effective for us because we can provide service to 1,000 customers on a single channel, instead of one, so we use less of our radio resources. If we were circuit-switched we couldn't accommodate that number."

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JOURNAL

PAGING By Andrew Emerson

Battle royal between two protocols

Ermes versus Flex: the stakes are high as networks are replaced and created all over Europe

History has a habit of repeating itself—but in an unpredictable way. So whereas the European-turned-global GSM system for digital mobile phones has been an outstanding success by any measure, its partner protocol for digital paging has scored



Vodafone Paging is extending its range with WordZap

DEVELOPMENTS By Alan Simpson

Powering ahead in Europe

Eutels research indicates that the number of pagers in Europe could triple by 2001

Perhaps one of the puzzling areas of telecommunications is the continuing growth of paging systems—despite the arrival of the all-pervading mobile phone. By rights, the message pager should be history, consigned to museums alongside the wind-up telephone and telex machine.

But the message pager is not only thriving, it is in growth mode. Mobile phones have made consumers more aware of the need to keep in touch, and paging provides a low-cost method of communications.

Chris Bullick, managing director of Motorola EFS, says: "There is absolutely no evidence in Europe that cellular frenzy is having a negative impact on paging. In an age where information overload rules, the pager offers some respite. It can, perhaps, be seen as e-mail on the move. Users can access their messages when convenient and not when the cellular necessarily demands."

Basically, a paging system is a radio receiver permanently tuned to a single station. When it is manufactured, it is given an individual coded number which is built into the pager. Originally developed for short-range (less than a mile) applications, the technology has developed for wide area networks.

Traditional pagers can fall into three main categories: those which emit a single tone; those which emit a range of tones with each tone signifying a particular predefined message such as "Ring my office"; and those which display an alphanumeric message.

There were more than 1.25m pagers in use in the UK at the end of last year. Paging, says Motorola, is one of the most cost-effective and widely-used forms of radio communications, with more than 110m pagers in use globally. Europe is one of the fastest-growing regions in the paging world, driven principally by the "Calling Party Pays" initiative.

According to the European Research Body Eutels, the number of pagers in Europe could triple by the year 2001.

The key finding of a recent Eutels survey was that paging in Europe has a current penetration level of 1.5 per cent which is very low when compared to the US (15.8 per cent) or Asia (1.1 per cent). The pager, it seems, has the potential of becoming as common as a wrist-watch.

With the consistent introduction of new value-added services for a wider range of business applications, no other communications service gives organisations such value for money, flexibility and freedom, says PageOne Communications.

nothing like the same success. There are even voices suggesting it should be laid to rest in favour of a scheme devised by US mobile radio giant Motorola.

To "good Europeans" such a sentiment sounds like heresy, having developed a truly indigenous pan-European standard, why on earth abandon it for a proprietary standard from the US?

The reason is simple: although developed specifically for a cross-border European paging service, the commercial success of the Ermes (Enhanced—formerly European—Radio Message

System) protocol, has proved unspectacular and this has been a big disappointment to those who believed a single technical specification was the best solution for paging users, operators and manufacturers in Europe.

The result now is a battle royal between two extremely well-developed technical specifications, one European and free for all, the other American and proprietary.

Trivial the current skirmish is not and the stakes are high: Paging networks are being replaced—or created from scratch—all over Europe. Brand new systems are springing up throughout the new republics of eastern Europe, while in western Europe the old analogue systems are obsolete and overloaded—the user base here grew 22 per cent in 1995 alone.

The need for replacement is vital, says Kari Meylan, product manager paging for NEC Europe explains. "Existing paging networks are significantly overloaded in most of Europe; they were designed and installed 20 years ago or more and they have reached the end of their economic life.

"New digital networks can provide this much-needed extra capacity, while higher transmission speeds will allow users to receive longer, more complex messages with data and graphics too. New technology will also allow paging operators to introduce dynamic new user features such as two-way paging (acknowledging receipt of message) and international roaming (allowing you to be paged anywhere in Europe)," he says.

Two rival techniques are proposed for fulfilling all this reconstruction. On one hand the "good Europeans" adhere tenaciously to the Ermes doctrine, while the "pragmatists" believe their interests will be better served by aligning with the global Flex protocol developed by Motorola.

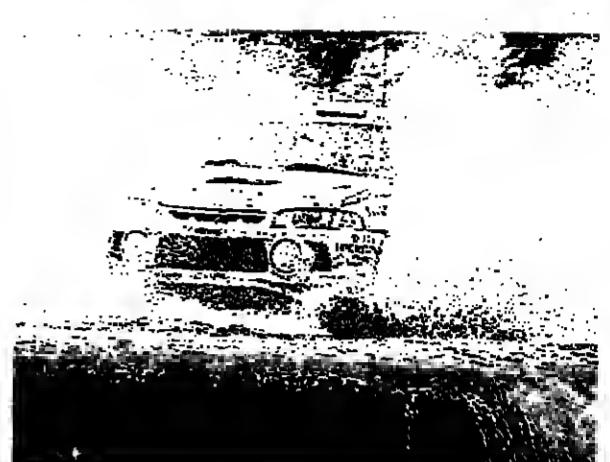
Mr Meylan continues: "This indecision over protocols is extremely damaging and it is certainly not in the interest either of users or of the industry. As manufacturers of both types of product, Ermes and Flex, we can take an independent stance. We are happy to make whatever our customers require and at the end of the day we will go

same radio frequencies used in each territory means you can make one single product, opening up the prospect of genuine economies of scale. The price comes down, sales go up and everyone benefits."

This Ermes-oriented vision of "the paging system of the future that will soon link all Europe", as one Swiss manufacturer calls it, is an intriguing scenario but one that is unlikely to come to pass if this year's conference of paging operators in Europe is any indication.

The European Public Paging Association conference vote showed conclusively that operators wanted the same freedom to choose standards as their counterparts enjoyed in the rest of the world. No fewer than 74 per cent of all operators asserted that "Individual operators should be allowed to choose", with delegates from southern and eastern Europe voting 92 per cent and 75 per cent respectively for freedom of choice.

Chris Bullick, marketing director for Motorola's European Paging Subsidiary Division, says: "What's really happened is that the freedom of choice movement has



Motorola, official communications sponsor of the 1997 Network Q RAC Rally will use pagers to supply an innovative information service which will give instant updates of the latest rallying action to participants and spectators

Picture: Alastair

now gained sufficient critical mass in Europe and there are no longer strong political obstacles to adopting Flex. During the next year we expect to see three or four leading west European operators using Flex and we also envisage some existing proponents of Ermes will consider mixing Flex and Ermes together in their networks.

The momentum for new services is now such that the industry will lobby energetically to use whichever technology meets its needs best."

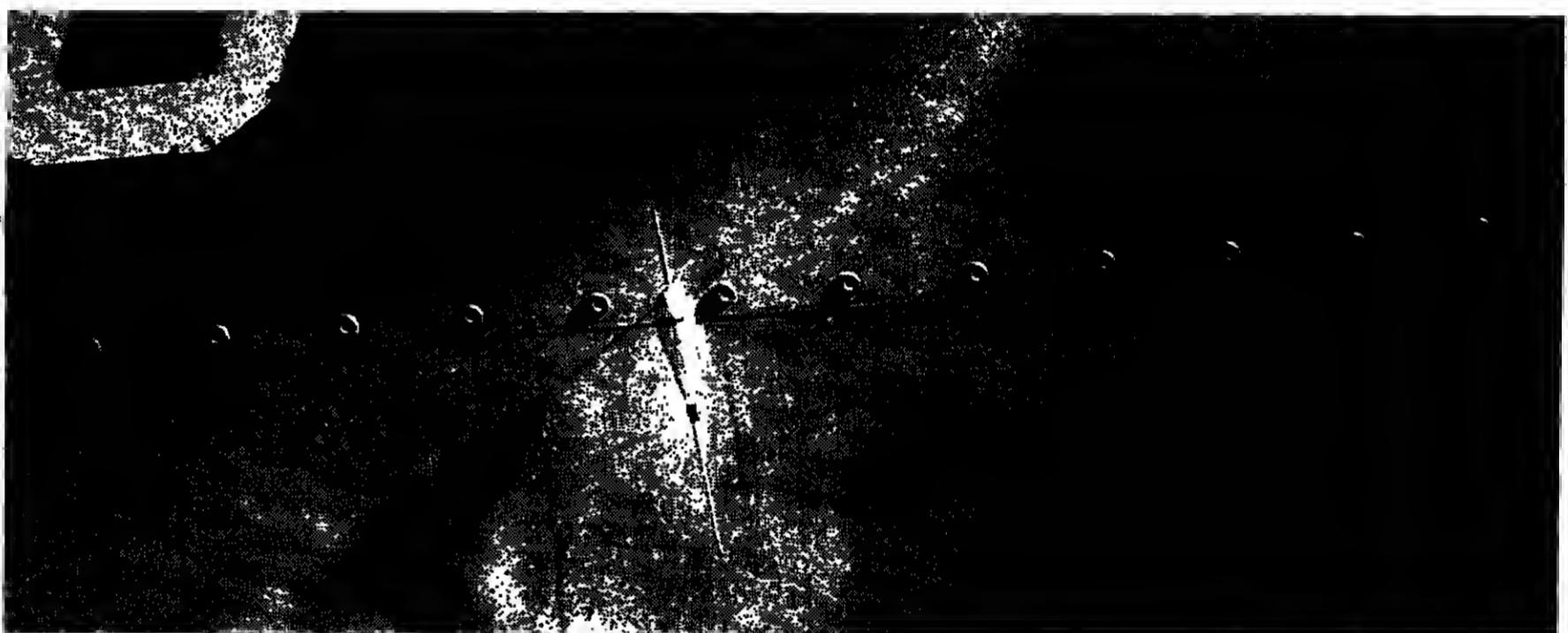
Whereas regulators were previously leery of Flex, be adds, they now believe operators should have the freedom to install whatever

serves their customers best. Flex and Ermes are not mutually exclusive; while merging the two systems is technically not simple, neither is it impossible, he declares.

The eventual outcome is not yet clear. For all the elegance and political attraction of Ermes, the system has a mere 900,000 users globally, just over half in Europe. On the other hand, more than 20m Flex pagers (not all high-speed) have been shipped worldwide already, a dominance which would be hard to overturn.

The signs point to a repeat of history, that of VHS and Betamax.

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PROFILE Bouygues Telecom

An effective performer

While Bouygues Telecom may be the third, and so far the last, operator to enter the French mobile telecommunications market, it is certainly proving to be one of the more effective performers. Its innovative tariff offering is proving a strong marketing formula.

A speedy roll-out of the FF23m network investment is already putting Bouygues ahead of the targets set in the third mobile licence it was awarded by the French government in 1994.

"This should give the network a better chance to compete against its two rivals.

"Very quickly after the launch we have seen the speed at which the market is accelerating. So we have decided to accelerate the deployment of our coverage. Our licence requires us to cover 87 per cent of the population by the end of 2005," said a senior Bouygues executive.

"But we will have covered more than 90 per cent of the population by the middle of 1999. We will accelerate our deployment by 5% years. Because we go very quickly we have quicker cash flow and that compensates for the enormous start-up costs," he said.

Because of its later launch, Bouygues remains well behind its two rivals – France Telecom's Itinérance network and the Cie Générale des Eaux-led Cegetele consortium with SFR.

In October, Itinérance could count 2,316,000 subscribers and SFR 1,513,000, while Bouygues had about 300,000.

The French authorities chose the DCS-1800 technology for the third network. This offers smaller cells than the GSM-900 used by the first two networks. One aim was to improve coverage in the large towns, where the DCS-1800 is a more effective

communication means.

Bouygues won the 15-year licence in October 1994 and with it a four-year exclusivity for the DCS-1800 technology in the largest towns, such as Paris, Lyons, Marseilles, Lille and Nice.

Bouygues' main industry partners in the bid were Cable and Wireless and German utility Veba.

Director-general Patrick Lelais was rapidly appointed and built up his team. The initial 90 staff had grown to 1,100 at the end of 1996 and is expected to reach 2,700 at the end of this year. "Bouygues has probably created more jobs than any other company in the last two years," the executive said.

Bouygues' aim has been to turn the mobile telephone from a product that was used by a privileged few into a product with mass market appeal. Bouygues focused closely on providing the market with what it wanted and made the technicians fulfil that aim, he said.

The result of this combination was an innovative forfait system of tariffs. In other words, a subscriber decides at the outset to pay a fixed amount for monthly use of one, two or three hours minimum. The effect was to undercut the two more established rivals with a competitive offer.

This year has seen the entry of Telecom Italia as a new shareholder, alongside Bouygues and Decaux in the holding which has a 50 per cent stake in the Bouygues Telecom operator Decaux is a French company which runs the large advertising billboards alongside roads and motorways.

C&W holds a 20 per cent stake, and its former partner Veba, 17.5 per cent.

The split-up of their Vebacon telecom venture has had little impact on its ownership of Bouygues Telecom. Smaller shareholders are Banque Nationale de Paris with 3.5 per cent, and Paribas with 3 per cent.

The shareholders

the UK it is 14.1 per cent," he said.

The impact of the Bouygues arrival has been to boost the market, an effect which has been emphasised by Bouygues' own decision to speed up the roll-out of its network. By the end of last year, subscribers totalled 52,000 and the company has already exceeded its end 1997 target of 300,000.

"We think that we are going to exceed 400,000 by the end of the year," the executive said.

Bouygues believes it has the most dense network to the world. It is building a network with a capacity equivalent to "a four-lane motorway in both directions". Roll-out started in Paris, then Lyons, the Côte d'Azur and Normandy, and will move to Lille by the end of the year.

It will not be long before the Bouygues DCS-1800 network, focused on big towns, catches up with the coverage of the two GSM networks. Cheaper prices have been compensated for its more limited coverage.

"Today, that is the case. But soon that won't be true because we will have 90 per cent of the population covered and it will be no different to the others," the Bouygues executive said.

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Nigel Tutt

KEY DEVELOPMENTS IN EUROPE By Matthew Slater

Crucial months ahead

Competition is intensifying on several fronts – and customers are benefiting

The coming months could be crucial for the continuation of Europe's mobile telecoms success story. Not only is the debate on the replacement for the Global Standard for Mobile Communications (GSM) coming to a climax, but the battle for market share in Europe looks set to continue with new entrants, new markets and new products.

While manufacturers and service providers compete for their slice of this lucrative market, and customers enjoy the fruits of competition and technological progress, industry regulators are considering the standard for the Universal Mobile Telecommunications System (UMTS), the so-called "third generation" of mobile telephony.

Philip Springuel, a consultant for telecoms experts OTR, said: "The choice of standards for the third generation is possibly the biggest challenge facing the sector in Europe. The European Telecommunications Standards Institute (ETSI) is supposed to give its decision at the end of this year. I do not think that they will be able to do it by then. I expect a compromise standard in early January."

The debate has focused on two rival technologies: wideband CDMA (Code Division Multiple Access) versus a combination of two existing systems: CDMA and TDMA (Time Division Multiple Access).

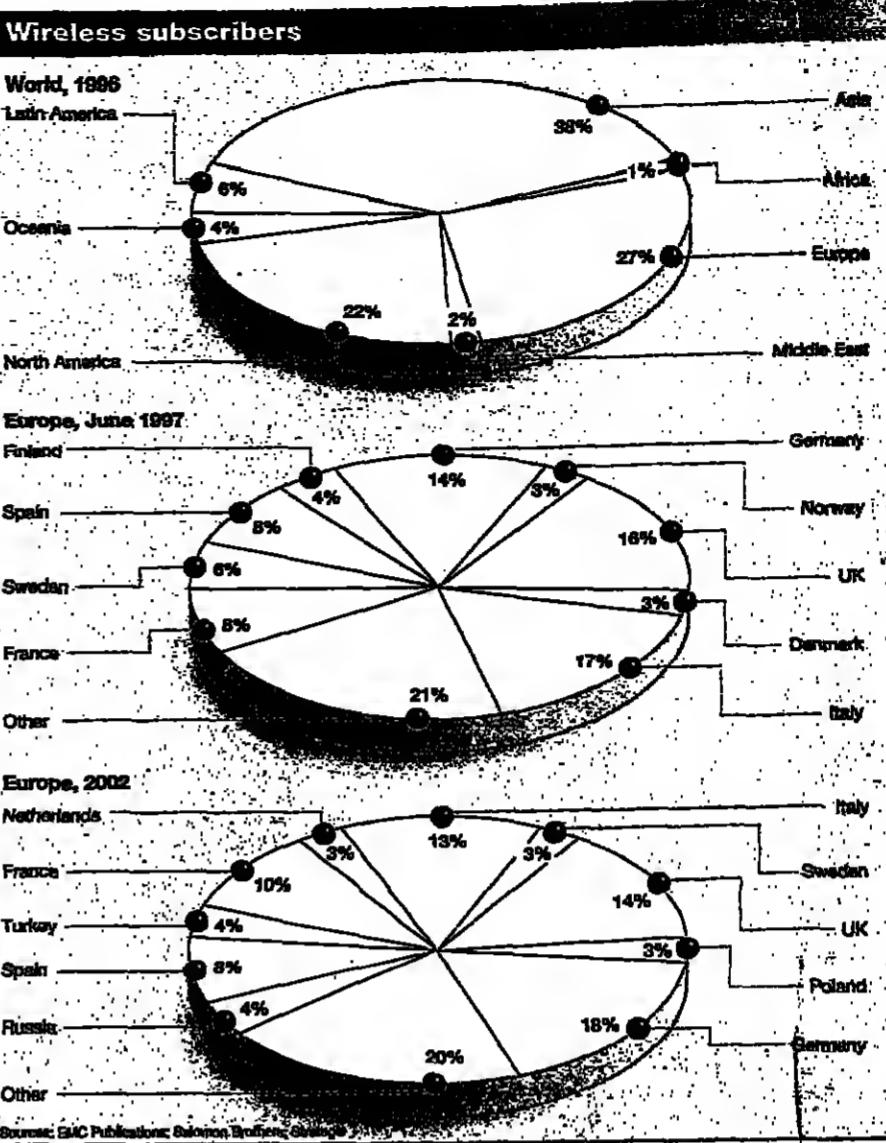
The battle lines appeared to have been irreversibly drawn two months ago when Nortel, Alcatel, Siemens and Italtel joined forces to promote the CDMA-TDMA standard. This was a clear challenge to Ericsson, the market leaders, and Nokia, who favour wideband CDMA, which has Japanese support.

The European Commission has been vocal in its calls for a single standard, but has been careful not to become too involved in the debate.

"On the issue of standardisation for UMTS, the commission policy is that the best place for those decisions is at the industry ETSI level, and that the most important factor is interoperability between possibly rival systems," a commission spokesman said.

The issue is undoubtedly important in the medium to long term, but has little impact on the short term. As Mr Springuel said: "It is fun to talk about third generation, because it is far easier than trying to sell your second generation products right now. The real battle is still for sales of GSM and CDMA, and that versus Japan versus US."

This heated competition is clearly good news for the consumer. For an indication of how the European market will develop one need look no further than the UK. Alex Nourouzi, a telecoms specialist at Ovum, a London-based consultancy, said: "I expect real movements on



pricing from both Cellnet and Vodafone before Christmas. They have been content to allow a large price differential between themselves and Orange and Mercury, because of their superior coverage and customer base, but they just cannot do that any more."

"Cellnet really is a sleeping giant. They still have 1m analogue subscribers, but their churn rates (the number of subscriptions not renewed) are high. Christmas is a very important time for them."

While growth rates in the British market have slowed, there are opportunities elsewhere in Europe for rapid growth and big profits. Mr Springuel thinks Spain will be the most exciting market of the next year.

"The overall economic situation is improving, telephone liberalisation will be achieved in time for the EU target of January 1 1998, and mobile penetration is small at the moment."

"The other great factor is the Mediterranean culture of the Spanish symbol. Just as in Italy, the mobile phone will be a 'must-have' Mr Springuel said.

The Spanish market and the tempting east European markets of Poland, the Czech Republic and Hungary, will also give an important indication of another development in European mobile telephony.

Manufacturers who have until now underperformed in this sector, particularly the Asian electronics giants, will be competing much more aggressively now.

"Recognisable brands like Panasonic and Toshiba will pose a greater challenge to put

the earlier agreement into effect, but also find some new compensation to replace the measures which have lost their compensation value," a commission source said.

Competition between manufacturers highlights their increasing importance to the growth of the European market. As Mr Nourouzi said: "Nearly half the member states will not make the EU deadline for having at least one competitor operating at the 1800 frequency. Countries with competitors operating at both 900 and 1800 are few and far between. At the moment it is probably only the UK, although Switzerland and Portugal are very close."

The underlying issue to the problem of spectrum allocation is competition. Or, how competition can best be stimulated. Mr Springuel is critical of the Commission's approach.

"Simply creating competition artificially will please nobody, especially the new entrants who are faced with the dominant incumbents."

"The Commission has to start allocating both 900 and 1800 to new entrants. Only then will the price of dual-band handsets come down."

"The real worry is that new technological advances will be hindered by innovative companies going to the wall. The convergence of different IT technologies is an exciting prospect for the future, but I'm concerned that adverse market realities will slow their development."

"The Commission has to decide who is more important, the customer or the EU's image," he said.

PROFILE

Convergence issue looms

Orange has this year established itself as Britain's leading cellular operator but must now come to terms with the issue of convergence between fixed and cellular services.

Following a slow start after its launch in 1984, Orange's performance took off in 1985 and swept the company to a successful stock market flotation early last year. But now the company must decide how to position itself for the emergence of convergent services, the coming trend in the UK telecoms market which could lead to a merger between the historically separate areas of fixed and mobile services.

Orange faces the threat that its three rivals in the UK cellular market are better positioned to take advantage of the move towards fixed-mobile services:

• One-2-One has the boost from its link to BT, which holds a 60 per cent stake in the cellular operator, and is eager for the regulatory approval that would allow

them to take over Cellnet and offer combined services.

• One-2-One has its parents on its side: Cable & Wireless and US West are investors in the UK's two leading cable television operators, Cable & Wireless Communications and Telewest.

Orange seems convinced it can offer fixed-type services over its existing cellular network. It has conducted trials on its network of a "home zone",

that would allow customers to make cheap calls on their cellular phones in a specific zone around their houses or offices.

Orange argues that such links to a fixed network operator can act as a hindrance and points to other European countries where fixed carriers, which have previously split off

A separate pointer is to how Orange is positioning itself for the convergent market is its announcement in October of a price cut on certain international calls of as much as 50 per cent to bring its rates into line with those charged on the fixed network. The other three international carriers have maintained their high-priced rates.

While Orange's new international rates do not undercut many fixed-network resellers – or possibly BT itself, once its various volume-discount schemes are taken into account – the accompanying marketing campaign was intended to establish with Orange users that there are occasions when a cellular phone can be used as a substitute for a fixed phone.

It is likely that the operator will come out with similar ideas in the future to woo its customers away from the fixed network.

Orange will be hoping that enough of them take the hint.

Richard Hardford

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October 1997

Jedlička

UK MARKETING BY Steve Costello

Competition is set to intensify

Operators are spending heavily on advertising to attract new subscribers

With cellular penetration in the UK lagging behind that of many other European countries – according to European Union figures* the UK has 12 per cent penetration compared to about 30 per cent in the Nordic countries – UK operators are using big budget advertising both to build brand identity and promote specific services.

According to Andrew Collinson, Cellnet's brand development manager: "If you look at the mobile industry you will see the market is changing and giving customers a preference has become more important." And because telecoms watchdog Ofcom recently secured number portability for mobile users – enabling customers to keep the same phone number in future, if they change operators – the competition is set to get tougher.

Trying to attract new users, Cellnet has recently launched a film advertising

campaign to support "Social Life", a new low-user analogue tariff. The scheme is intended to reinforce the company's 50 a minute off-peak tariff, said to start when a user's social life does – after 6pm and at weekends.

One-2-One is currently working hard both to build brand identity and sell specific services. This month, the company launched its biggest advertising campaign, featuring celebrities such as supermodel Kate Moss and former Beirut hostage John McCarthy, although it refused to put a figure on the budget.

This latest campaign follows a film promoting supporting the introduction of the "Up 2 You" tariff, said to be the first digital "pay-as-you-go" service in Britain.

The company has also extended a promotion allowing two handsets to be connected to one account, and business users are being tempted by the offer of £50 if they join One-2-One from another UK service provider.

Orange, which is traditionally seen as having the strongest brand identity, has recently launched a new "lifestyle" campaign valued at £12m. The advertisements



A still from Orange's £12m "lifestyle" advertising campaign

are said to show how the company understands the needs of its customers, with the focus on four different ways to join the service.

The campaign consists of five advertisements, starting with a general theme then four that focus specifically on different tariff schemes. Along with the campaign, Orange has launched a new tariff, "Just Talk", aimed at attracting customers who do not want to commit themselves to a minimum term contract, monthly charges and credit checks.

Other "pre-pay" schemes are being offered by the other cellular operators in a move to attract customers

rebranding, which saw the it adopting a new logo based on quotation marks.

The strapline for the campaign, which includes TV, poster, print and direct marketing, is: "The world is Vodafone". According to reports in the UK marketing press, the campaign is costing about £15m.

The company has also launched a collection of new tariffs, with two new digital tariffs launched in September targeting the medium and high end of the market, preceded by two new analogue tariffs designed for the low-user market. "These new tariffs address different segments of both the business and consumer markets," commented David Channing Williams, Vodafone's managing director.

The service providers have one other big problem to resolve: that of "churning." After signing people up, they need to keep them.

According to a report in *FT Telecoms World*, during one month in 1996, of 90,000 gross connections to the Cellnet network, only 15,000 new additions were made to the customer base; 72,000 were later disconnected.

Part of the problem lies with the operator. According

to recent information from Anderson Consulting, churn in Europe is at about 25 per cent, and "churn frequently results from the way operators go to market".

"Often, for example, dealers actively encourage churn because they receive incentives for handset sales or customer subscriptions rather than for customer retention and value-added service."

In order to counter this, reward programmes seem to be in favour. Cellnet, for example, rewards users with extended airtime depending on the volume of calls made. Orange rewards users by giving them points that are redeemable against products and activities, ranging from cinema trips and camera film to white water rafting and parascending.

The future of the mobile market also seems to be in cross-marketing. Orange has teamed up with NatWest bank to produce a Visa card, while Cellnet has teamed up with Barclays to promote remote telephone banking.

*Research on Advanced Communications in Europe (RACE) newsclip, September 15, 1997

The author is editor of the *FT Communications Newsletter*



The One-2-One Nokia 3000: hands-free voice dialling

PROFILE



One-2-One signed up 106,000 new customers in three months

Staging a significant recovery

One-2-One, the UK's smallest cellular operator which is jointly owned by Cable & Wireless and US West, has staged a significant recovery this year from the depths of underachievement in 1996.

It is now starting to make up lost ground on its larger rivals, Cellnet, Vodafone and Orange.

In the first nine months of this year, One-2-One signed up 263,000 new customers, second only to Orange with 285,000 new customers but well ahead of long-established competitors Vodafone (218,000 new customers) and Cellnet (184,000 new customers).

Such a result was unthinkable a year ago when the company had attracted a mere 38,400 new customers over the same period. And One-2-One could be performing even better in the future if the past quarter is anything to go by.

In the past three months it signed up 106,000 new customers – more than 40 per cent of its total in the year so far – and roundly beat its three rivals. In the three summer months of last year it added a mere 20,000 customers.

One-2-One now has a total of 506,000 customers, compared with Orange's 1,070,000 and the longer established Cellnet and Vodafone with 2,340,000 and 3,016,000 customers, respectively.

The company's turnaround coincided with the appointment in spring last year of Jan Peters as managing director.

Mr Peters, a former president of US West Media Group's cellular interests in the US, revitalised One-2-One with a new marketing campaign, reworked tariff packages and an expansion of its distribution strategy so that its service was on sale in most retail outlets.

Crucially, Mr Peters also forged ahead with One-2-One's policy of building out its network to match the geographic reach of its rivals.

One-2-One had made the mistake of only making its

service available in the south-east of England after its launch in September 1993. Even if customers did not make calls much outside this part of the country they wanted to feel they could if the occasion arose. One-2-One suffered as a result.

Also, the operator mistakenly pitched itself at the bottom of the market with a tariff package that offered unlimited free, local off-peak calls.

Subscribers took up the offer enthusiastically – much to One-2-One's cost.

By pitching to the bottom of the market, One-2-One found itself saddled with many customers who did not pay their bills and ended up deserting its network.

One-2-One has since scaled back its free calls offer and spent much of last year dealing with the effects of customers churning off its network.

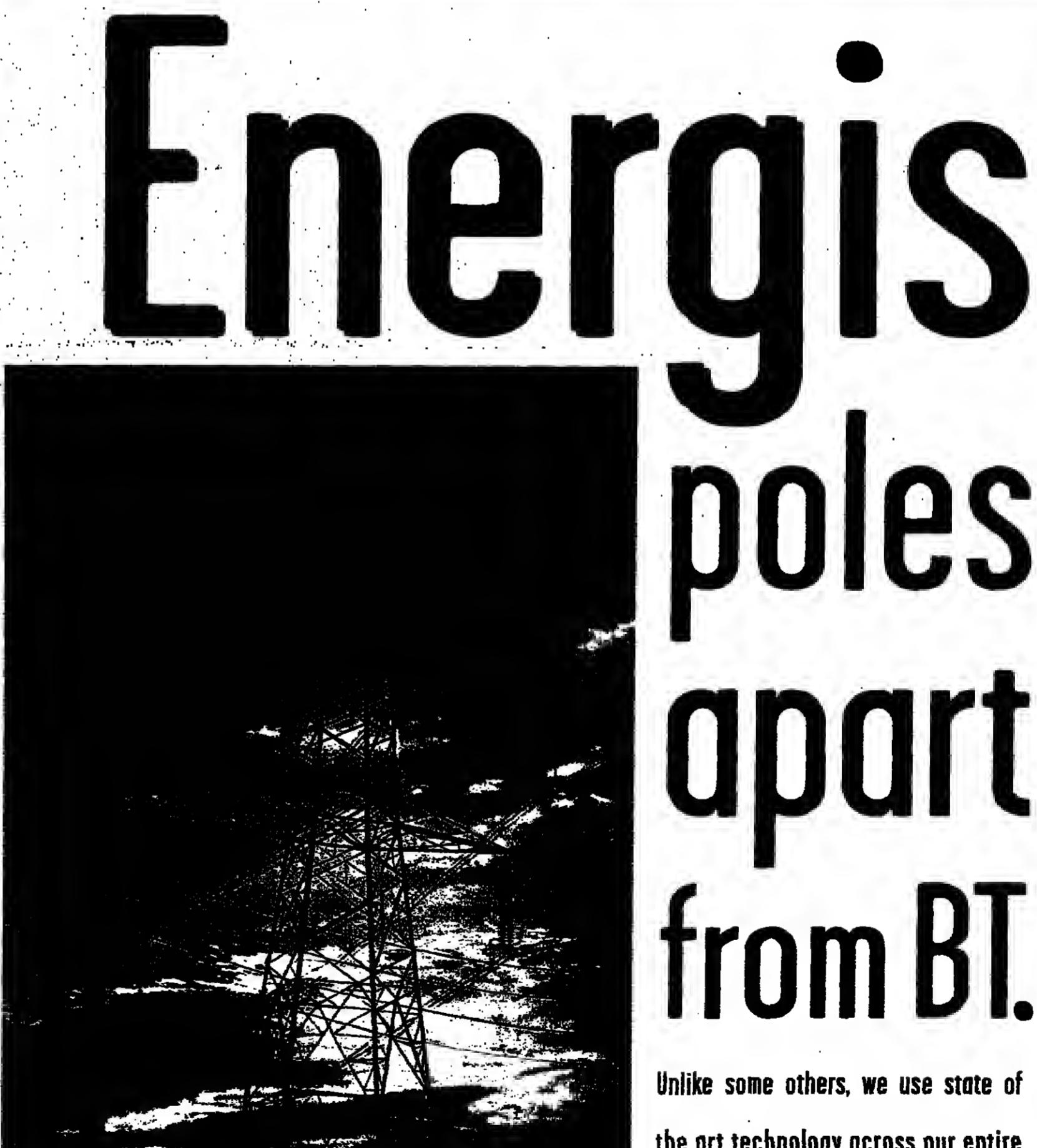
It was stuck in a vicious circle – the volume of calls generated by its free calls offer congested the network to the point where subscribers found it hard to actually make calls so jammed was the network.

In turn, this necessitated more investment in the network to increase capacity rather than building it out to other parts of the country. The congestion problem eventually started putting off customers.

A year on, the operator has been turned around, although Ms Peters has not stuck around to see the results. At the start of October she left to become chief executive officer of MediOne, the US cable television operator which is part of US West.

A sure sign that the operator's recovery was complete came in July from an unexpected source. Chris Gent, chief executive of the Vodafone Group which has previously seen its main competitive threat as Orange, predicted Vodafone's fiercest opposition in the future would come from One-2-One.

Richard Handford



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PROFILE Airtouch Communications

Foreign operations are key to profits

US-based Airtouch Communications likes to describe itself as the world's largest independent telecommunications company focused entirely on wireless communications. It has about 10m cellular and pager customers worldwide and operates in 12 countries and in some of the fastest growing cellular markets.

The company was spun off from California-based Pacific Telesis Group in 1994 and has a market capitalisation of about \$20bn. Airtouch provides cellular service to about 4m customers and more than 3m paging customers in the US, making it one of the largest providers of wireless communications services in the US.

Earlier this year, Airtouch announced a definitive agreement to merge with US West Media Group's domestic cellular business with its own operations in a deal valued at \$5bn.

This will make Airtouch the largest cellular carrier in the western US, giving it an additional 2.2m customers in 12 contiguous western states when the merger is completed next year.

The US West deal, however, could fall through if current US legislation known as the "Morris Trust" passes in its current form which would block the merger. If this occurs, the two companies will proceed with their current joint venture agreement.

The addition of US West's cellular network will give Airtouch valuable benefits from increased economies of scale which should serve to drive down operating costs as prices for cellular services continue to fall. The company has strong cash flow and conservative financial policies, prompting Standard & Poor's to give it a corporate credit rating of BBB+.

Third-quarter fiscal results reported on October 23 showed a large increase in profitability with earnings per share jumping 150 per cent to 25 cents, compared with 10 cents per share for the same period in 1996. The results were boosted by the company's overseas operations which began showing strong profits.

"Our international performance this quarter was particularly impressive. Our 11 ventures in total achieved significantly improved profitability coupled with record customer growth,"

said Sam Ginn, chairman and chief executive officer of Airtouch. "Meanwhile, in the US, our cellular business posted its best margins ever, demonstrating our ongoing ability to reduce our cost per subscriber faster than the decline in revenue."

With about 20 per cent of the US population subscribing to cellular services, competition has grown tougher in US markets, especially with the introduction of Personal Communications Services (PCS) digital communications services.

Airtouch says it has managed to hold onto customers by offering new packages of competitive services and draw upon its economies of scale to drive down cash costs in the third quarter by 22 per cent, compared with the same period in 1996, while cash flow margins grew to 49.2 per cent, the best in the company's history.

"International operations have been very important to us and contribute our only revenues but also provide us with ideas and services we can use in the US and other markets," said an Airtouch spokesperson. "For example, in Sweden, the market for wireless internet data services is much more advanced than it is here."

Airtouch operates joint ventures in Belgium, Germany, India, Italy, Japan, Poland, Portugal, Romania, South Korea, Spain and Sweden. It is one of the fastest-growing European cellular markets and the company is also aggressively pursuing emerging markets. Earlier this year it entered into the Indian and Romanian cellular markets, and its joint venture in Brazil has won a licence for cellular services in the populous São Paulo area, although that licence is currently tied up in a legal challenge mounted by a competing consortium.

"We've done well in international markets because we've been able to bring our US experience in providing high quality customer service to countries where the entrenched telecoms companies have been slow to respond," said the Airtouch spokesperson.

Airtouch is currently the largest operator in the US of Global System for Mobile Communications (GSM) networks. It is also focused on PCS and has a 25 per

cent interest in PrimeCo Personal Communications which has 11 PCS licences in big US metropolitan areas giving it access to new markets such as Chicago.

Although PCS services currently represent a small percentage of the company's customer base, US market research firm Dataquest expects that by 2000, about 50 per cent of all wireless communications will be using PCS handsets, even though most of those handsets will offer dual modes supporting existing analog cellular in addition to digital PCS. Airtouch already offers dual-mode handsets so that customers can take advantage of both types of networks depending on their location.

Airtouch recently authorised the repurchase of up to \$1bn of its own shares and it plans to continue investing in its communications infrastructure and in joint ventures in the US and internationally.

Airtouch expects wireless communications markets to continue expanding in the US, pointing to much higher cellular use in countries such as Sweden where about 30 per cent of the population is subscribed to cellular services.

There are also potential opportunities in new kinds of services that replace a company's existing internal telephone networks with wireless systems – and in internet data services that can provide subscribers with access to e-mail and information published on world wide web sites.

Airtouch has an interest in the Globalstar satellite-based communications venture which plans to launch and operate a network of 40 low earth orbit communications satellites providing inexpensive worldwide wireless communications services. Globalstar's network will open up markets in rural areas and in developing countries where establishing existing wireless communications services is too expensive. It will also give Globalstar customers worldwide roaming capabilities for their phones.

Airtouch has entered into joint ventures that will provide Globalstar-based communications services in the US, Canada and Indonesia.

Tom Foremski

THE US • By Tom Foremski

Digital gets airborne - at last

A battle over standards is one of the problems which have had to be resolved.

Digital wireless telephone systems in the US have taken longer to establish themselves than initially expected by US telecoms companies, largely because of the huge installed base of analog systems, but digital phone services are now showing signs of taking off.

Digital phone services based on so-called Personal Communications Services (PCS) systems promise clearer sound, lower prices, greater channel capacity, and handsets that run longer on batteries. But PCS has had to overcome a number of financial, marketing and technological barriers.

US companies have spent \$17bn on licences to broadcast on PCS frequencies. But the high cost of those licences, which were bid up in auction, left many companies without enough money to build their PCS networks. In addition, there has been a battle over industry standards between the newer code division multiple access (CDMA) and the older but more established time-division multiple access (TDMA) technologies, and the US ver-

itas of the European Global System for Mobile Communications (GSM), which is based on TDMA.

CDMA offers greater carrying capacity but the technology is more complex, and it does not have the established base of equipment providers and lower costs of TDMA. This has forced US companies to choose between taking a risk with the less well-established CDMA or jump straight into the market with the better established TDMA or GSM.

Some companies such as AT&T chose TDMA mainly because most of their existing equipment is from Ericsson, which does not support CDMA. Others, such as Sprint, have chosen CDMA. "CDMA has been the majority choice in the US but TDMA is strong in foreign markets," says Clint McClellan, senior analyst at US market research firm Dataquest. "CDMA offers much better voice quality and can carry more channels. But those companies that chose TDMA have had an advantage in terms of getting to market more quickly."

According to the CDMA Development Group, 51 per cent of US PCS companies have chosen CDMA, compared with 28 per cent who opted for GSM, and 2 per cent for TDMA.

For example, California-based Pacific Bell Mobile Services (PBMS) decided to choose GSM for its digital phone service and it imported technologies and expertise from Europe, where GSM networks have been operating for several years.

PBMS won a bid for two PCS licences from the US Federal Communications Commission for services covering 31m people in California and neighbouring Nevada. Instead of waiting for CDMA, PBMS decided that time to market was critical and it opted for a PCS network based on GSM. Ericsson was awarded a five-year contract worth \$300m to supply the GSM infrastructure of base stations, switching centres and handsets. UK-based systems integrator Logica was chosen to help set up the vital customer care and billing system.

"Next to the PCS network itself, the customer care and billing system is the most important part of the business. We have to be able to quickly respond to competition, with new services and rate plans. And with a high level of customer service," said Rosaleen Derington, executive director at PBMS. "Logica helped us a lot. They used their experience to tell us what was possible in the time frame we had."

A key obstacle for PCS has been marketing. The US has a cellular subscriber base of about 45m, representing about 17 per cent of the population, most of them using analog systems. Trying to persuade these customers to switch to PCS services has been an uphill battle for many companies, mainly because customers are confused about the technologies. Furthermore, the analog systems already offer relatively low prices and wide coverage yet have the benefits of digital wireless.

Dual-mode handsets use digital networks where they are available, but automatically switch to analog cellular where necessary.

"Adding analog to a PCS phone is relatively cheap and it allows companies to leverage their existing analog cellular networks, plus they are able to offer a package of different services," Mr McClellan said. "In this way, they can lock in customers with cheap analog and migrate them to digital as the infrastructure expands and as prices for the equipment and handsets become lower."

Dataquest estimated that 50 per cent of all US cellular customers will be using digital by 2000, even though in many cases they will be using a dual-mode handset.

Digital wireless systems, however, can challenge analog cellular in other ways, by tempting customers with a wide variety of new services.

Transmission of digital information such as news, stock quotes, plus giving customers access to e-mail and internet connections will be key services that can provide PCS companies with a range of profitable premium services.

Companies such as Nokia have begun promoting the use of smart phones in the US that offer such services.

CHINA • By Nick Ingelbrecht

A focus for overseas investors

Foreign companies are using joint venture funding structures to establish a presence

China's burgeoning mobile phone market has become the focus of efforts by foreign investors seeking a foothold in the mainland's tightly restricted telecommunications sector.

Last month's \$4bn listing of China Telecom (Hong Kong) gave minority shareholders their first taste of the mainland's telecos services business – one which still remains officially closed to foreign direct investment and participation in network operations.

Despite the ban, an increasing number of foreign companies are using joint venture funding structures with local Chinese companies to establish a presence as financiers and consultants to mainland operators. Their interest is not surprising, given a market which has doubled in size every year since the first cellular services were launched in 1987.

China Telecom, the operational arm of the Ministry of Posts and Telecommunications (MPT) in Beijing, reported that the number of mobile phone subscribers had passed 10m in July this year, while analysts estimate the country's user base will top 12m towards the end of December.

"We would expect China to be the largest GSM market worldwide by the end of 1999," said Mike Short, director of international affairs at Cetnet, which has tied itself into the mainland's rapid growth in mobiles through subscriber roaming agreements.

The MPT has revised upwards its own market projections twice during the past year and now estimates China will have 30m cellular users by the end of 2000.

"The Chinese cellular market has recently been transformed from a monopoly into a competitive market, where there may soon be six competing networks in any given city," said Dylan Tinker, regional telecoms analyst with Jardine Fleming Securities, in a recent market study.

In the past few months, said Tinker, cellular airtime charges in mainland China have fallen to about 5 cents a minute, which is about a quarter of the average tariff charged by cellular operators in the special administrative region of Hong Kong.

The main protagonists in the market are China Telecom, which boasts a 98 per cent share of the cellular market, Lian Tong Telecom

Corporation, also known as Unicom, which last month claimed 300,000 subscribers, and the People's Liberation Army, with a few thousand customers.

China Telecom's listed subsidiary, CTHK, which incorporates the country's two biggest provincial cellular networks in Guangdong and Zhejiang, accounts for 28 per cent of the total national subscriber base.

"No one in the Chinese bureaucracy [is] advocating opening services to foreigners, they are all much more concerned about their own right to compete," said one Beijing diplomat recently.

The financing requirements of China's competing cellular operators have, however, created a small window of opportunity for foreign companies – including Deutsche Telekom, France Telecom, McCaw International, NTT International and First Pacific Co – attempting to establish themselves on the mainland, although the obstacles remain formidable.

Despite "wishful thinking" to the contrary, China's telecoms policymakers have no incentive to change the rules to favour foreign investors, argues John Ure, director of the Hong Kong University's Telecommunications Research Project.

"China is not about to open its doors to foreign direct investment in its telecommunications networks or services," he said. "First, it does not need to. Despite network build-out plans which are ambitious by any standards, China is well on course towards fulfilling the targets of the ninth five-year plan and is generating sufficient revenues to attract foreign funds on very favourable terms. Second, the MPT has an interest against foreign direct investment."

China Telecom's strong cash flows mean the MPT, which also acts as the country's telecoms regulator, has no need to reform the telecoms sector and also fears that an influx of foreign funds would simply aid its fledgling competitors, said Mr Ure. For that reason, some analysts believe foreign operators would do better to seek out relationships with alternative carriers.

The risk and reward profile of ventures with Lian Tong have proved too much for some international operators, such as the handful of US regional Bell holding companies which set themselves up in China during the past three years only to pull back subsequently from their investments, blaming regulatory and commercial obstacles.

In several cases, most recently with Ameritech in Shanxi Province, their local partnerships have been snapped up by Hong Kong and Singapore companies with stronger stomachs for the precarious telecoms

investment environment in the mainland.

Hong Kong-based Hutchison Telecommunications is striking out on its own to establish partnerships with China's alternative carriers. Lian Tong said it was negotiating with Hutchison for the construction of CDMA cellular networks in 20 cities, with services due to be launched at the end of next year. "We chose a few cities to start, but in the future it will be a national network," said a Lian Tong official.

In a separate mainland venture, Hutchison also has agreements to provide services and equipment for CDMA systems in a further 35 cities on behalf of Great Wall Communications, a joint venture between the MPT and China Electronics Systems Engineering Company, a subsidiary of the People's Liberation Army.

The growing participation of Hong Kong companies in the mainland's telecoms industry is not accidental and may be formalised in China's long-delayed telecoms law, due to be promulgated during the next 18 months.

Liu Cai, director-general of the MPT's department of policy and regulation, said: "In the new draft law, we are thinking about having some flexibility for at least Hong Kong companies to have certain further participation in the sector."

PROFILE MobileOne

Gobbling up the cellular market

The mobile phone is integral to the communications culture of Singapore. Mobile penetration, at about 12.5 per cent, is one of the highest in the region, and an average talktime of 350 minutes a month makes a meagre figure of the 90 minutes US users spend talking on their mobiles.

Despite this, Singapore's cellular market has had among the lowest subscriber growth rates of the Tiger economies. What was needed was competition and this arrived in the market in April this year when the country's second cellular operator, MobileOne (MI), rolled out its GSM service.

Within just 180 days the company had grabbed up 18 per cent of the existing cellular market, and today boasts a subscriber base of 115,000 – an impressive figure given a population of only 3m. Furthermore, whereas initially 30-40 per cent of the company's customers were defectors from the majority state-owned cellular monopoly Singtel, now most of MI's new subscribers are first-time subscribers.

Aggressive marketing, some intelligent customer-specific packages and the benefit of the

experience of its shareholder companies – Keppel Group, Singapore Press Holdings, Hongkong Cable & Wireless and C&W – have been key to the strategy of the company, whose entrance to the market exceeded all expectations.

According to Neil Montefiore, chief executive of MobileOne, MI's intention was to compete with SingTel on three fronts: quality, customer service and value. "We wanted to offer value that could be seen on a rational basis," he said.

Ross Cormack, managing director of major shareholder Cable & Wireless AsiaMobile, believes the extensive market research conducted by MobileOne has given the company an advantage over SingTel.

MobileOne, he says, "created a number of different brands to speak in different voices to different market segments in a way that was fresh and new. In other words, we expanded the vision of what mobile telephony is all about, and I think we were very clear. We tried not to confuse our customer base. We tried to come up with a simple, easy-to-understand package."

All MI's customers

receive voicemail and short messaging services at no extra charge. An e-mail service alerts the subscriber if an internet e-mail is received by sending a page to the customer via their mobile handset.

MI is also partnering with internet provider Cyberway, and other content providers, to offer short messaging service-based information services to subscribers' handsets, providing up-to-date news, financial, travel and other information.

A big influence on the Singaporean market has been tight regulation with a clear vision of what the country wants from its telecoms industry. The Telecommunications Authority of Singapore (TAS) ensured that any rival to the national telco would have to be prepared to make substantial investments for no easy returns. It also insisted that a second operator eschew at least one of the normal routes to boasting subscriber take-up rates: that is subsidising the cost of a handset.

In addition, both companies must provide a basic number portability facility which has ensured that customers signed up to state-owned incumbent

networks for the sort of increased capacity (Code Division Multiple Access) technology can offer. In the first quarter of 1998, MI will launch the first CDMA network in the region.

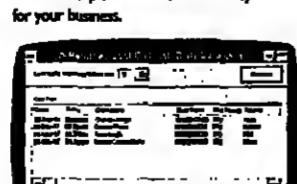
"GSM is a mature technology of today, however CDMA could bring a lot to customers such as US roaming," says Mr Montefiore. CDMA's better spectral efficiency will also result in lower operating costs, smaller and lighter handsets, and improved speech quality which, Mr Montefiore believes, will be more attractive to the market.

Singaporeans are heavy social users of cellular phones, and MI will pitch CDMA at new subscribers in this category, as well as at the fixed-line replacement market. Mr Montefiore, who is anxious to avoid having the CDMA service cannibalise MI's GSM network, plans to differentiate the two services, limiting the affordability of CDMA to "certain market segments".

Furthermore, MI's stockholders have announced their intention to bid for one of two fixed licences up for grabs later this year.

Jackie David

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CASE STUDY BT telemarketing

Drive to improve quality of service

BT, the UK's largest telecoms operator, is using call centres to defend its position in its deregulated and increasingly competitive home market. As a state-owned monopoly, BT was a byword for bad service. But today, re-born as a private company and facing threats from all directions, BT reckons that good service could become its principal distinguishing feature.

BT has long been one of Europe's largest operators of call centres, used to support its customers, but now it is expanding that activity as part of a drive to improve its quality of service.

It is moving from only handling inbound calls to launching outbound operations from telemarketing centres for the first time, in order to take a more proactive relationship with its customers.

"We did not have any competition in the past, now there is a lot of it and we have to respond to it," says Craig Anderson, the manager of BT's computer-telephony integration unit.

Six new telemarketing call centres are being set up around the UK to help BT keep in contact with its 21m domestic and 6m business customers.

Every domestic customer should get a call from BT once a quarter to check whether its telephone service has been satisfactory and inform him or her about any new deals or changes in prices.

The call centre agents will promote BT's "Family and Friends" discount scheme for regularly called numbers as well as BT's charge cards and other products and services. At the same time, the company will be promoting its premier service for high-volume users and

ensuring that customers are on the best tariffs for their type of use.

This is seen as an important strategy in the struggle to repeat the challenge of cable companies, which are stepping up their marketing in an effort to capture more telephony customers from BT.

The new BT call centres are in Warrington,

Glasgow, Belfast, Bristol,

Newcastle-upon-Tyne and

Doncaster. Four of them

have been opened recently

and the other two are

expected to be opened

before the end of the year,

at a total cost of more than

£100m. They will employ

about 3,500 agents.

The centres will use

desktop applications such

as call scripting and

"screen popping" from

Graham Technology, a

Scottish software developer

which moved into customer

management systems in

1994, and call distribution

and predictive dialling

systems from Davor

Corporation, a US call

centre systems supplier.

Call load balancing and networking software has been supplied by Genesys, a US computer-telephony integration specialist. BT has also invested heavily in switching technology from Nortel, servers from Sun Microsystems and personal computers for its agents.

Calls will be switched from one centre to another to avoid callers having to wait and to ensure that they are answered by the most appropriate available agent. Most of the agents will work part-time – typically about 25 hours a week – and about half of them will be supplied by external agencies in order to give BT maximum flexibility in coping with unpredictable peaks and troughs in demand.

"People represent about 65 per cent of the cost of a call centre and if callers can't get through to them they are wasted. That is why getting the best technology is essential."

At the same time, BT is also increasing its

George Black

investment in its existing inbound call centres, of which there are dozens around the country, employing about 12,500 agents. These handle 150 and 154 calls from domestic customers and businesses querying bills and reporting faults, 100 calls to the operator and 152 calls to directory inquiries, as well as 151 and 152 calls for sales of equipment such as fax and phone-answering machines.

The centres will be networked together using Genesys software to form a nationwide "virtual" call centre, again transferring calls from one to another automatically to improve the service. Both projects are due to be completed in the next few months.

BT has invested £10m in software from Genesys, half of which will be used for BT's own campaign, the other half being re-sold to BT's corporate networking clients. BT's prospective US partner, MCI, has a minority shareholding in Genesys.

"It's always a battle to cope with the huge volume of calls, but people will be able to get through more easily and get their questions answered more quickly," says Trevor Richer, BT's marketing manager for call centres.

"We will never be a leader on price, but we will be a leader on service," he says.

"It would be possible to improve service just by adding more agents to existing operations, but that was the most expensive solution and not necessarily the most effective."

"People represent about 65 per cent of the cost of a call centre and if callers can't get through to them they are wasted. That is why getting the best technology is essential."

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The Merchants Group management consultancy's 450-seat communications centre, based in Milton Keynes, is one of the most technologically advanced communications centres in Europe. Staff make or take more than 250,000 calls each month on behalf of clients who have outsourced their operations. Merchants service 43 countries and have capability in more than 25 languages. Clients are from the financial services, technology, utilities and pharmaceuticals industries

CALL CENTRES By George Black

Wrestling with technology

Setting up a call centre usually involves a series of difficult decisions

The call centre market in Europe is growing at about 40 per cent a year, according to recent research by Datamonitor, as the cost of the technology falls.

More and more organisations are setting up call centres to deal with their customers and win new business, but the technology involved is complex, immature and often badly deployed. It typically comprises a switching system, either private branch exchange (PBX) or automatic call distribution

(ACD); a client-server computer system and a number of software applications such as call logging and routing, scripting, voice mail and interactive voice response (IVR). Computer-telephony integration (CTI) is the jargon term for all this; how well computers and telephones are integrated is the key to success.

A large volume of inbound calls can be handled by directing each call to the next available agent and making all the relevant caller information immediately available to that agent. By avoiding the need for the customer to repeat his name and address and the subject of his call, a lot of time can be saved and the customer will feel his inquiry has been better handled.

Outbound calls are speeded up by automatic or "predictive" dialling, connecting the agent to the customer or prospect at the right moment.

Users tend to plunge

straight into the technology before they have analysed who they call and who calls them and why, he says.

"Once you know what type

of business you are in, and what your needs will be, it is much easier to decide what sort of centre to set up."

According to Nick Stratis,

manager of telebusiness

marketing for Cable and

Wireless Communications,

the UK network operator:

"The hardest part of setting up a call centre is to know what you need it for."

One solution to this problem is for peak-time responses to be switched to a call centre in the US, where the direct response television advertising market is much more developed.

According to Don Anderson,

UK managing director for Matrixx Marketing, an outsourcing company which operates a service of this kind, the sharp fall in transatlantic call charges makes it very cost-effective to switch UK calls to US

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OUTSOURCING BY John Williamson

Rise of the supercarrier alliances

Supercarriers say they can cut costs and make the life of corporate telecoms easier

So-called telephone "supercarrier" alliances are back with a bang - as was amply illustrated by the recent manoeuvrings to take control of MCI, the second-largest US long-haul telecoms operator.

Such alliances have been forming since the early 1990s as operators have tried to capture the private network traffic of big-name international and multinational corporations. Potential customers are encouraged to outsource the operation of their telecoms services and networks to the supercarriers in an arrangement that, they are told, will save them money and allow them to concentrate on their core business activities.

Companies routinely outsource catering, building security and cleaning, runs the argument, so why not telecoms? Leaflets from companies such as Concert, Global One and AT&T Unisource would suggest that supercarrier alliances were marriages made in heaven. In fact, they are the product of a more earthly necessity.

Following telecoms liberalisation in many countries,

incumbent operators are losing business and revenues to new market entrants. A telephone company such as BT may not yet have suffered grievously from the attentions of its now numerous competitors, but the situation can only get worse for the incumbent operators.

As well as becoming much more efficient, established carriers are being forced to diversify into new market sectors. One of these is the provision of managed network services for high-spending business corporations. And, given the circumstance that no individual telephone company has the financial clout or technical skills to enable it to provide a "soup-to-nuts" service in all parts of the globe, those wishing to prosper in this sector are obliged to move forward in harness with like-minded partners.

Virtual private network (VPN) technology can be an important element of the managed network and outsourcing deal. Using special software, the supercarrier is able to partition its network in such a way that, while different users are actually sharing the common infrastructure, each is provided with the sort of facilities it would enjoy if it had exclusive access to a discrete, private network. A more radical step is to outsource the network wholesale, with the

supercarrier planning, implementing and operating the network on a day-to-day basis. In this case, the supercarrier sometimes buys the network from the corporate customer. VPNs and outsourcing are seen to have substantial commercial potential. An estimate last year from London-based consultancy CTT Research said that the world's 500 largest multinational corporations were then spending about \$5bn on such services.

Added to cost savings, the supercarriers say they can make the life of corporate telecoms easier by shouldering the considerable technical and regulatory burdens of building and operating complex cross-border telecoms systems. Related to this is the assumption of responsibility for new technology and network upgrades.

"It's very difficult to build and manage global networks," says Colin Spence, vice-president for commercial development at Concert Communications Services of the US. "What you typically find is that most internationally-active companies have a lot of capability in their home country but a great lack of resource outside of their home country."

Finally, the supercarrier promises a single point of responsibility for network provisioning, installation, service and billing, and access to a homogeneous repertoire of services at all points in the network. "By coming to a managed service provider you're effectively allowing that provider to take all the pain," says Preston.

But not everything in the

per cent are possible when organisations share an operator's backbone infrastructure rather than operate leased lines themselves."

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At the moment, none of the so-called supercarriers is in a situation where they could give you the same ser-

vice with full transparency anywhere in the world except for simple bearer or transport services," says Joseph Cornu, president of Alcatel Telecom. "Most of the supercarriers are in very early discussions about the kind of global solutions they are going to apply. It probably will take a new generation of network before they can provide those solutions."

And the supercarriers do not have the outsourcing opportunity to themselves.

Ranged against them are longer-established enterprises, some service-sector specific, and a number specific to industries such as banking, finance and transport.

One example is Equant which operates in 225 countries and territories and claims to own the world's largest international business data and service network.

The airline, which carried 10m passengers in 1996, was running one of Brazil's largest private data networks supporting some 3,000 sales and distribution points, and a 10,000-line telephone network.

It had been using the services of Sita for its international network requirements for 40 years. So why outsource the rest?

According to Jose Carlos Martínez Sabate, Varig chief information officer, there was a need to concentrate on core business activities.

Related to this was the cost and time required to ensure that the corporate telecoms and IT systems were optimised to support these core activities.

One of the main reasons for the decision was the constant need to invest in the update of our telecommunications infrastructure and IT systems," says Mr Sabate.

"And, of course, we expected to make a cost reduction on day-to-day operations."

The deal covers virtually all aspects of Varig's telecoms and IT functions, including responsibility for network management and availability, help-desk

The author is senior technology editor of Global Telephony Magazine

CASE STUDY

Varig and Sita-IBM

Airline deal takes off successfully

support, data processing, data centre operations, applications development and maintenance.

The Sita-IBM team also handles relationships with telecoms operators in Brazil.

There are presently about 20 of these with more on the way after a new round of liberalisation has taken place.

However, Sabate thinks it is important that a company maintains the competence to define what it needs from the managed network provider, and the airline does this.

Varig did find that the outsourcing partnership was unable to accommodate its requirements for radio systems linking ground and aircraft, but Sabate acknowledges that this is a very specialised business, especially because the orientation of these systems is currently changing from analogue voice to digital data.

Varig says its outsourcing deal works well and Sabate offers companies considering the outsourcing option two pieces of advice.

First, since telecoms and IT functions are often critical, you need full commitment to it and the decision to take that route should be taken by the executive board of the enterprise, or a representative committee.

Second, once the decision has been taken, it is vital that the request for proposals from the service provider is framed in such a way as to accurately represent the expectations of the user.

John Williamson

CASE STUDY

Managed networking: a natural for gas

Some managed and outsourced services are operated over wireless as opposed to wireline infrastructures, writes John Williamson. A case in point is the Data Direct managed data communications service for business and corporate customers recently introduced by UK cellular operator Vodafone.

Vodafone claims five benefits for Direct Data - a single point of access to a range of data and messaging

services, one point of contact for customers, one contract, one bill, and access to an enhanced range of communication options.

For the customer, it means a much more simplified technical proposition, and a cost-effective and tightly-managed solution, when implemented, says Richard Jacobs, managing director of Vodafone's Vodnet Advanced Services division. The

British Gas Services is Data Direct's first customer and has replaced its national private mobile radio (PMR) networks with an integrated voice and data management system running on the Vodafone GSM network.

Most of the company's 20,000+ field workers are equipped with PC laptops with CD-Rom capabilities to store data, parts and other mission-critical messages.

PCs are hooked up to GSM telephones that link the engineers to British Gas Services' management information system.

The management information system schedules and allocates planned work overnight, for downloading at the engineers' request in the morning. Job details for unplanned work are received by any one of seven Area Service Centres and then transmitted to the best-placed engineer's laptop via the digital cell phone.

More than 60,000 calls each day are exchanged between the engineers and British Gas Services' host system. Each call, which typically is set up in less than seven seconds and lasts less than 15 seconds, carries information relating to service calls, work in progress, stock requirements, technical data and other mission-critical messages.

Using specialised GSM communications software, paperwork has been reduced, and where work is chargeable, payment is mostly processed on site.

"Engineers are now being issued with work more quickly since data transmission times are several times faster than achieved over the old PMR networks," says Cathy Middle, IS architecture and GSM project manager, British Gas Services.

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PRIVATISATION • By Christopher Price

Flotations still lure investors despite mixed results

In spite of varied stock market performances, sell-offs remain popular

Millions of investors in Australia, Italy, Portugal and France have been flocking to subscribe to the flotations of their former national telecommunications operators in recent weeks.

The public offering for Telecom Italia, which is the largest single privatisation carried out in Europe, attracted more than 2m potential investors and was four times subscribed.

It was a similar story in Australia, where an estimated 2.5m people applied to take part in the AS42bn partial privatisation of Telstra.

In France, the sell-off of

France Telecom attracted almost 4m individual investors, while the demand from institutional investors was 20 times greater than supply. Demand from Portuguese investors for shares in Portugal Telecom outstripped supply by 14 times.

While some investors will have undoubtedly been attracted by the prospect of making quick profits from the sale of their investments, many others - in particular institutional investors - will be hoping for more longer-term returns.

However, the performance of previously privatised telecoms groups has produced very mixed stock market performances and analysts warn that the fortunes of this autumn's offerings - although only Telstra and France Telecom will be new listings - are likely to be varied.

The performance of Telecom Italia, where the government has just sold its final 45 per cent holding, makes the clamour by investors look more understandable - its shares have risen more than three-fold against the Italian market since 1992.

Likewise, Portugal Telecom shares have outperformed the Lisbon market by 25 per cent since its part-privatisation a year ago.

Research by ABN Amro Boers Goveit, published this summer, shows huge differences in the share price performances of privatised and part-privatised telcos.

Shareholders in Telefónica also have reason to celebrate, shares in the Spanish telecoms group outperforming the Madrid bourse by 73 per cent in the past five years.

More recent flotations appear to have fared less well. KPN, the Dutch operator, has seen its shares underperform the Amsterdam market by 18 per cent since 1994. Tele Danmark, the former Danish national carrier, has lagged the market by 32 per cent in the same period.

The conclusion to this mixed performance is that despite some consistent trends in the telecoms sector, the individual companies' circumstances can vary enormously.

Thus, in the case of BT, the UK group has been perceived as a defensive stock at a time when investors

have been seeking high-growth targets. Part of this perception is based on the fact that the company's relative longevity as a listed company has meant it has been through its initial period of cost-cutting, while entry into new markets is seen as producing returns in the longer term.

Telecom Italia, on the other hand, has been perceived as having better growth prospects because of the limited competition allowed until now in its domestic market. It is also considered ripe for rationalisation.

KPN and Tele Danmark are seen as suffering from fears over competition, while at the same time having limited growth potential. Indeed, Tele Danmark's poor stock market performance was one of the reasons for the Danish government's

decision last month to sell a 40 per cent stake in the former national carrier to Ameritech of the US for \$3.1bn.

What, therefore, is the market's view of the two companies which will be wholly new to their respective stock markets this autumn, namely Telstra and France Telecom?

In the case of the Australian group, analysts are largely positive. Limited competition in the domestic market has been in place for five years which has had the effect of sharpening Telstra's commercial outlook.

Nevertheless, Telstra, like most former national operators, has suffered market share losses in the two areas under attack from rivals. As part of this refocusing, Telstra plans to shed 22,000 of its 70,000 employees over the next three years.

Opinion on the outlook for

France Telecom shares is also largely favourable.

The group has a healthy record on efficiency measures such as lines per employee and number of employees.

Analysts are also positive on the group's high penetration and digital network, which they say suggests that future expenditure can be geared towards expanding service ranges and increasing line usage.

Cogent, the Générale des Eaux subsidiary, is expected to emerge as the main domestic rival across a wide range of telecoms services. Competition in the mobile phone market is already under way, with France Télécom pitted against the respective telecoms arms of Générale des Eaux, the diversified utilities company, and Bouygues, the construction group.

It currently has 69 per cent

CABLE TELEVISION • By Andrew Emmerson

New Year deadline is largely symbolic

The time limit will be something the industry notes rather than adheres to

The looming January 1 1998 deadline for the liberalisation of telecommunications in the European Union may strike the casual observer as a little odd.

Have not some countries, such as Britain and Denmark, had largely free and accessible telecoms markets for a number of years? At the same time, do not others, such as Portugal, intend to keep the barriers up until well into the next century?

Meanwhile, many other EU national telecoms operators appear to be involved in a frenzy of privatisations and strategic deal-making, which again make the forthcoming date look irrelevant.

The truth is that the deadline is largely symbolic but serves to remind EU governments of the intent, rather than any sort of finality, of Brussels' free market policy.

"Important segments of the industry like data, cellular and the sale of terminal equipment have been liberalised for some time," says Salomon Brothers, the US-owned investment bank.

"Thus although January 1 is an important date, it is unlikely to mark an overnight revolution in industry dynamics. Rather, the competitive market will continue to evolve, albeit with greater urgency than in the past."

It believes the most immediate pressure will be felt on operators' international and domestic long-distance calls. This has been a trend for some time, with pressure being exerted in particular by aggressive north American operators.

However, with the liberalisation issue coming more to the fore, analysts believe that many European operators, particularly those newly-privatised ones, will become more pro-active in reducing prices.

The emphasis will continue to be on international calls, with the domestic market being affected more gradually as the market is opened up to competition.

Scandinavia and the UK are already witnessing something of a domestic price war between established and new operators.

France, Spain, Italy, the Netherlands and Germany, which are among those to have recently privatised

their national operators, are likely to undergo a similar experience, particularly in the long-distance market.

The long-term decline in revenues for national operators is something all commentators agree on. Salomon Brothers' estimates that increased traffic as a result of tariff falls for national operators will make up only between a quarter and half of the subsequent decline in revenues.

The broker concludes: "The introduction of new services, the growth of additional lines and a buoyant business market are crucial to the outlook for fixed-line services."

This has already been seen in the activities of British Telecommunications, the former national operator in the UK, which was privatised in 1994. It has pursued an aggressive strategy of seeking new revenue streams.

These have included taking a 50 per cent stake in Cellnet, one of the UK's four mobile operators, and developing new services such as ISDN, data management and internet access. At the same time, it has also pursued deals with other telecoms groups in an attempt to form a global telecoms alliance.

Despite having as openly competitive markets as the UK, other European operators have also begun manoeuvring themselves in anticipation of the changing shape of the international market.

Germany, Europe's largest telecoms market, has spawned three rival groupings to Deutsche Telekom, the newly privatised national operator. These include Mannesmann Arcor, owned by Deutsche Bahn, the German railway operator and a consortium led by Mannesmann Otelco, a joint venture between Veba and RWE, two large industrial conglomerates, and Viag Interkom, an alliance of the industrial group Ving with BT, are the two others.

RWE, however, had earlier in the year been expected to join the Viag consortium. Its defection to Veba, which had an alliance with Cable and Wireless, was followed a few months later by the UK company pulling out of the partnership altogether.

There was drama elsewhere as Telefónica, Spain's privatised national carrier, decided to abandon Uni-source, a European alliance

it shared with KPN, the Netherlands operator, PTT Switzerland and Telia of Sweden, in favour of Concert, the global alliance of BT and MCI of the US.

Falling prices, declining market share and the pressure to find new sources of revenues and cement alliances, may make the outlook for the former PTTs look challenging.

However, they also have several strengths, which some analysts believe will cushion them against the onset of competition.

Not least of these is their position as the dominant suppliers of fixed-line services.

Analysts predict that the former national operators will promote a range of services to customers under the convenience of one bill, which could include a variety of discounts and special offers.

This would make it difficult for new entrants to disentangle customers from their existing operator.

Salomon Brothers also suggests that customer information and data management will develop into an important element of future profitability for the former PTTs.

The broker points out that 14 per cent of Deutsche Telekom's residential customers generate half of residential revenues. "Telephone companies need to know who their profitable customers are and make sure they make every effort to hold on to them."

This has not been lost on some operators. Telefonica is planning to spend \$2.5bn over the next five years on information, management and internet access. At the same time, it has also pursued deals with other telecoms groups in an attempt to form a global telecoms alliance.

Thus, despite the challenges posed by competition, the existing and former national operators do have some significant advantages to exploit their position and brand. There will also be a large scope to cut costs.

Finally, there are regulatory issues to be considered. Different countries have installed different regimes to govern the opening of their telecoms markets and these will have a bearing on how rapidly competition evolves.

Likewise, the attitude of Brussels to how rapidly member states move to liberalise will also be of importance. Given the flexible attitude displayed so far, the forthcoming deadline will be something the industry notes rather than adheres to.

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There was drama elsewhere as Telefónica, Spain's privatised national carrier, decided to abandon Uni-source, a European alliance

Is consolidation likely to provide the success which so far has eluded the industry?

Sometimes progress is hard to define. Fifteen years ago, Britain had 1.5m cable television subscribers; today the figure is 2.1m (ITC figures) - not a significant increase compared to, say, the 3.8m homes equipped with satellite dishes (GfK Home Audit).

It is a strange paradox for the country which according to some claims actually invented cable television, but not entirely surprising, given the excellent quality of reception for terrestrial television.

Whereas other countries have used cable to compensate for patchy over-the-air reception, in most parts of Britain there was no need, setting the cable networks a far tougher challenge to become established.

Probably nothing now remains of the cable systems in use back in 1982 and the transformation and reconstruction of those technically obsolete networks reflects considerable credit on the parties concerned, even if we do not quite have the nation-wide cable comms.

The broker points out that 14 per cent of Deutsche Telekom's residential customers generate half of residential revenues. "Telephone companies need to know who their profitable customers are and make sure they make every effort to hold on to them."

This has not been lost on some operators. Telefonica is planning to spend \$2.5bn over the next five years on information, management and internet access.

Thus, despite the challenges posed by competition, the existing and former national operators do have some significant advantages to exploit their position and brand. There will also be a large scope to cut costs.

Finally, there are regulatory issues to be considered. Different countries have installed different regimes to govern the opening of their telecoms markets and these will have a bearing on how rapidly competition evolves.

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classic broadcast methods losing their dominant position to new media based on landlines.

Traditional restraints on growth are dissipating too, according to international media analysts Ovum. A recently published white paper of theirs entitled *Digital Television - Digital Broadcasting: The Final Convergence* predicts new competitive challenges for carriers and distributors, with clear opportunities for phone companies.

According to the report: "Television service providers will disband, offloading their network infrastructure to the telcos and merging their content distribution operations, while telcos will become focused providers of carriage over terrestrial wireless and satellite infrastructures."

New technology and opportunities now hold the key to a total restructuring of programme delivery, with

At the same time, it continues, the traditional economics and structure of the broadcast entertainment business are changing, resulting in an increasingly fragmented market competing for share and advertising revenues.

Vertical integration will no longer provide large operators with a dominant position and winning strategies for new entrants will centre on identifying new market niches and forming alliances.

The signs may be clear enough, although identifying profitable formulae is harder. This is not holding back creativity, however, and the immediate thrust of new endeavour is in the interactive direction.

Cable & Wireless Communications, with interests in telecommunications and in cable television, has launched its TV Interactive Channel, and together with Virgin Records has co-produced three interactive music programmes.

These will translate directly to digital interactive with the launch of digital cable TV next year. The hour-long pilots, first broadcast on cable in October, give an insight into the scope of digital interactive programming with the potential for direct links between the TV and the internet.

Another, far more ambitious, attempt to tap into telecoms revenues from interactive television is British Interactive Broadcasting, a grand alliance of BT, BSkyB, Matsushita and others.

Of all the potential delivery mechanisms for digital interactive services, the chosen marriage of satellite delivery and telephone line return path is well-chosen and while the market for such services is as yet unproven, at least the financial risk is carefully shared and BT and BSkyB, as shrewd and successful operators in their own fields, both bring valuable talents and

scored some success with its win-back campaign and aggressive marketing of Friends and Family discounts.

The cable industry now faces the massive cost of re-engineering its networks for digital television and installing new digital set-top boxes in every home served. The companies are also being squeezed on the costs they must pay to carry BSkyB's satellite channels, while simultaneously resisting the pressure to increase subscription fees.

Cable customers have no investment in their set-up (unless like dish owners) and would balk at significant price increases, whereas satellite viewers are presumably more committed and would more likely pay higher fees.

Geeneral Cable has even stated that it makes a loss on BSkyB's current terms and cannot afford to sell multi-channel television unless the subscriber also takes its telephone service as well.

Faced with these pressures, it is little wonder that cable operators have been forced to merge in order to survive. From 17 multiple systems operators (MSOs) in 1985 and 12 last year, there are now nine left; industry

expertise. But exactly how will telecoms companies make money from television? Potentially there are three means:

- Existing operators with both cable and telecoms interests (such as the UK cable companies) can make additional revenue from interactive services and from new "narrowcast" channels offering niche-market programmes to special interest groups.

As the internet expands and spawns new "webcast" channels, we can expect to see phone lines carrying a form of hybrid information medium, not attempting to provide the same look and feel of "real television" but significantly more engaging than the static or animated world wide web pages we are familiar with today.

- Secondly, telcos such as BT can profit not just by participating in interactive television consortia but also by providing along a conventional telephone line - the interactive mechanism that allows users to control what they see on their screens, take part in competitions, and it is hoped, respond to advertising offers.

Known as the "wireline return path", this telephone-television link-up will further reduce the telcos' prospective return on investment from interactive services and will greatly reduce the case for broadband investment.

- Third, long-established revenue source for telcos and one which is set to expand significantly, is distribution.

This synergy between television and telecoms goes back a long way, to the mid-1930s in fact when the UK government determined that the BBC's new electronic television service should not become involved with external cable links but instead rely on the telecommunications branch of the Post Office (as it then was).

The precedent was followed by the introduction of the first television service in 1936, which was initially transmitted via radio waves.

It is the consumers who will deliver the final verdict; high technology, big budgets and grand plans cannot alone guarantee profitability in what Andy Grove, chief executive of Intel Corporation, engagingly calls "the war for eyeballs".

Where success is concerned, truly the eyes have it.

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INTERNET ACCESS • By Tony MICHON

Growing number of Empires prepare to strike back high-speed options

If you want to boost your access speed, fresh alternatives are on the way

When you began surfing the internet you used an analogue dial-up modem to access text, progressed through 14.4Kbps to 28.8Kbps and now, even with 33.6Kbps, you ask what is next to speed up multimedia applications.

Or perhaps you now find the internet an integral part of business and have decided that it is time the office took access seriously. Your choice relates to what you actually want to do, how much you are willing to pay, and crucially, what is actually available now in your area.

The latest asymmetric analogue dial-up modems now reach speeds of 64Kbps downstream and 33.6Kbps return path, so if you are not planning to send large graphic or multimedia files, asymmetric architectures are quite suitable.

But ISDN (Integrated services digital network) lines can offer 64Kbps, or doubled for a dedicated 128Kbps line, and are presently being heavily promoted by the telephone companies.

ISDN is already the most popular access route for small businesses, and companies such as internet office solutions supplier Network Alchemy are further enhancing ISDN functionality with products enabling it to serve as a PBX, offer voice IP (Internet Protocol), and firewalls, and integrate voice and data offerings. The downside is that ISDN is marketed as a business service and is priced accordingly.

For heavy users - more than 4½ hours a day spread over multiple machines - a better option is to get a leased line, copper or fibre, from the local telco allowing 100 per cent availability for a fixed monthly fee. Capacities

range in multiples of 64Kbps up to 2Mbps (an E1 line) then 10Mbps. Over 15Mbps and you are in the realm of delivering real-time video.

Leased lines offer as many addresses as required and allow companies to put their web server on site - vital if you want to offer services from your web site that integrate with your database. This is the true corporate route for extensive internet use.

Over 1.5Mbps and the cable and telephone companies will be competing for your business next year, cable flaunting the bandwidth of fibre optic coaxial cable networks using cable modems, and the telcos squeezing extra bandwidth out of their copper networks using Digital Subscriber Line (DSL) compression technologies, grouped as xDSL. The most widespread is Asymmetric Digital Subscriber Line (ADSL) which achieves 1.5 Mbps to 8Mbps, with upstream rates of 16Kbps to 640 Kbps.

A telco alternative to broadband technologies is switched digital broadband as part of a migratory path to add data and later video services, intended to provide bandwidth on demand. Some cable TV companies expect to deliver cable modems next year, typically offering 3Mbps to 10Mbps downstream, but there are wide variations, with symmetrical models for business users who do want to send very large files, including video.

US cable modem manufacturer Terayon reports five cable modem systems achieving 14Mbps each way. New Media Communications, another cable modem maker, is introducing a 5Mbps downstream model, and Com21 of the US is offering a segmented service to allow varied pricing for varied bandwidth. Again, all provide constant access with no dial-up for a monthly fee.

Dick Day, corporate vice-president of Motorola

Multimedia Group, says that his company's cable modem shipments show the US industry is on course for 100,000 US unit sales this year, expected to double next year.

High-speed wireless internet access is to be offered by UK cable operator Eurocell using MVDS (two-way wireless broadband) with data delivered at 2Mbps.

In Europe, Hughes Olivetti Telecom's DirectPC competes with Entelast and Com.net's service using 60cm antenna reception. A satellite card from ComStream claims downstream reception of 45Mbps. And BSkyB is teaming up with BT in British Interactive Broadcasting to provide a service prior to ADSL roll-out, and Bill Gates of Microsoft has a share in the global ambitions of Teledesic's planned low-level satellite internet delivery system.

Remote access to the internet is possible on a digital mobile phone. The Nokia 9000 Communicator via Orange uses dial-up but connects in eight seconds rather than 45 seconds for earlier versions. Digital mobiles such as the Psion 5 provide internet access at 9.6Kbps - enough to see your e-mail and do low-level world wide web browsing.

However, basic internet access for the majority is likely to arrive via the TV, with easy-to-use services geared to the poor and novice surfer - and consequently there will be a big software battle for this market. Competitors range from Microsoft's proprietary WebTV to Source Media's Interactive Channel.

General Cable is testing TV internet access in four UK cities next year and Ovum research suggests that the TV will win the mass market, rather than the net computer, a cut-down PC or TV set-top with functionality on the network.

The author is the editor of *Cable magazine*, published by FT Telecoms

PSTN operators are no longer ignoring the internet; many are already cashing in

Until relatively recently, established telecoms operators around the world tended to try and ignore the internet, viewing it as technology largely of interest to the academic, research and hobbyist communities. Today, these operators simply can not ignore the internet as it begins to eat ever larger mouthfuls of what many telcos consider to be their birthright businesses.

It is not that the internet has yet reached a size to dwarf the public switched telephone network (PSTN). According to figures recently released by the International Telecommunications Union (ITU), at the end of 1996 the number of internet users stood at 60m - still some way behind the 741m telephone lines in use at that time.

But compound annual growth rates (CAGRs) tell a different story.

Between 1991 and 1996, says the ITU,

the CAGR for main telephone lines was 6.3 per cent which is forecast to drop to 6.2 per cent in the period

1996 to 2001.

In sharp contrast, the 1991 to 1996

CAGRs for internet hosts and users were, respectively: 85.8 per cent and

67.9 per cent. The corresponding

internet figures for 1996 to 2001 are

46.8 per cent and 38 per cent.

Estimates of how many people will

be hooked up to the internet at the

turn of the century vary quite

widely. The fledgling "supercarrier"

grouping of AT&T/Unisource quotes

200m in the year 2000, while the ITU

plots for 300m the following year.

What is not disputed is the suggestion that the relationship between the telephone system and the internet is set to change radically.

According to Vinton Cerf, senior vice-president for data architecture at US long-haul operator MCI and a speaker at this year's International Switching Symposium (ISS) in Toronto, in five years' time the volume of internet data-only traffic will equal that of voice in the PSTN. Dr Cerf, widely acknowledged as one of the fathers of the internet, also told the Toronto audience that at that stage it would be reasonable to view the internet not as a parasitic network in relationship to the PSTN, but as a dominant network.

Pekka Tarijanne, ITU secretary-

general and another ISS speaker,

notes a number of key differences in

the way the PSTN and the internet

function. The first is connection-ori-



There were 60m internet users by the end of 1996, according to ITU figures

ented, with a circuit established and held for the duration of a voice call; the second is "connectionless" with separate addressed data packets negotiating the network by whatever route is convenient at any point in time and being reassembled at the appropriate destination.

PSTN operators typically have obligations to provide universal service while Internet Service Providers (ISPs) are unregulated.

PSTN service is generally usage-based, while internet use is flat rate or has a flat rate component.

Most worrying for traditional telephone operators, though, is the big difference in the end-user price of using the PSTN and the internet for similar services. "There is an enormous gap between the cost and pricing of certain telecommunication services," observes Joseph Cornu, president of Alcatel Telecom.

"In some cases the cost of providing service is probably 10 per cent of the price. Because of the way the internet is structured and the way the ISPs buy long-distance capacity at bargain rates, services can be provided at a price which is much closer to the actual cost."

One 1995 estimate quoted by the ITU is that the cost of sending a conventional 42-page fax between New York and Tokyo was nearly \$29, while the internet e-mail cost of the same document was less than 10

cents. Even the prospect of less dramatic cost savings is persuading increasing numbers of business customers to switch traffic from the telco-operated PSTN into the internet. Fax is an obvious candidate to be replaced by internet e-mail.

"The use of fax will begin to decline as e-mail becomes ubiquitous and accepted as a legal document," reasons John Birbeck, sales director for UK internet office solutions supplier Network Alchemy.

Internet telephony is as yet in its infancy and there are issues of quality, availability and convenience still to be addressed. As Cornu observes, to approximate to the existing quality of the PSTN, internet telephony will have to adopt some connection-like attributes and this will inevitably raise prices. Nevertheless, some experts warn that a substantial portion of telco PSTN call revenue could be under threat as voice, fax and voice mail migrate towards the net.

A new report from US-based market research concern Action Information Services says that use of the internet for voice and fax calls could cost phone companies \$8bn in lost revenue worldwide over the next four years.

In similar vein, Robin Duke-Woolley, a consultant with the UK's Schema telecoms consultancy, says:

"The quality of the voice transmis-

sion is improving rapidly. For many residential users, where cost is more important than high quality, these services will be attractive. But the economics are also becoming worthwhile for business users."

Schema also points out that, as with fax, more than 60 per cent of business calls are one-way communications and therefore a prime target for voice mail services.

Established telephone companies seem divided as to the seriousness of the threat posed to their traditional core revenues. It is rare, for example, to find a telco which perceives internet telephony as a serious stand-alone threat to conventional telephony. Rather the assumption is that it will be a component of future multimedia services across the net.

A rather less benign view of the internet as a potential threat to traditional telco revenues is taken by Jos Gerrese, director of internet-based services at AT&T/Unisource. "The main threat to telcos resides in the possibility that customers will start buying communication solutions via different channels, and public telecoms operators are relegated to the role of raw bandwidth suppliers," he says.

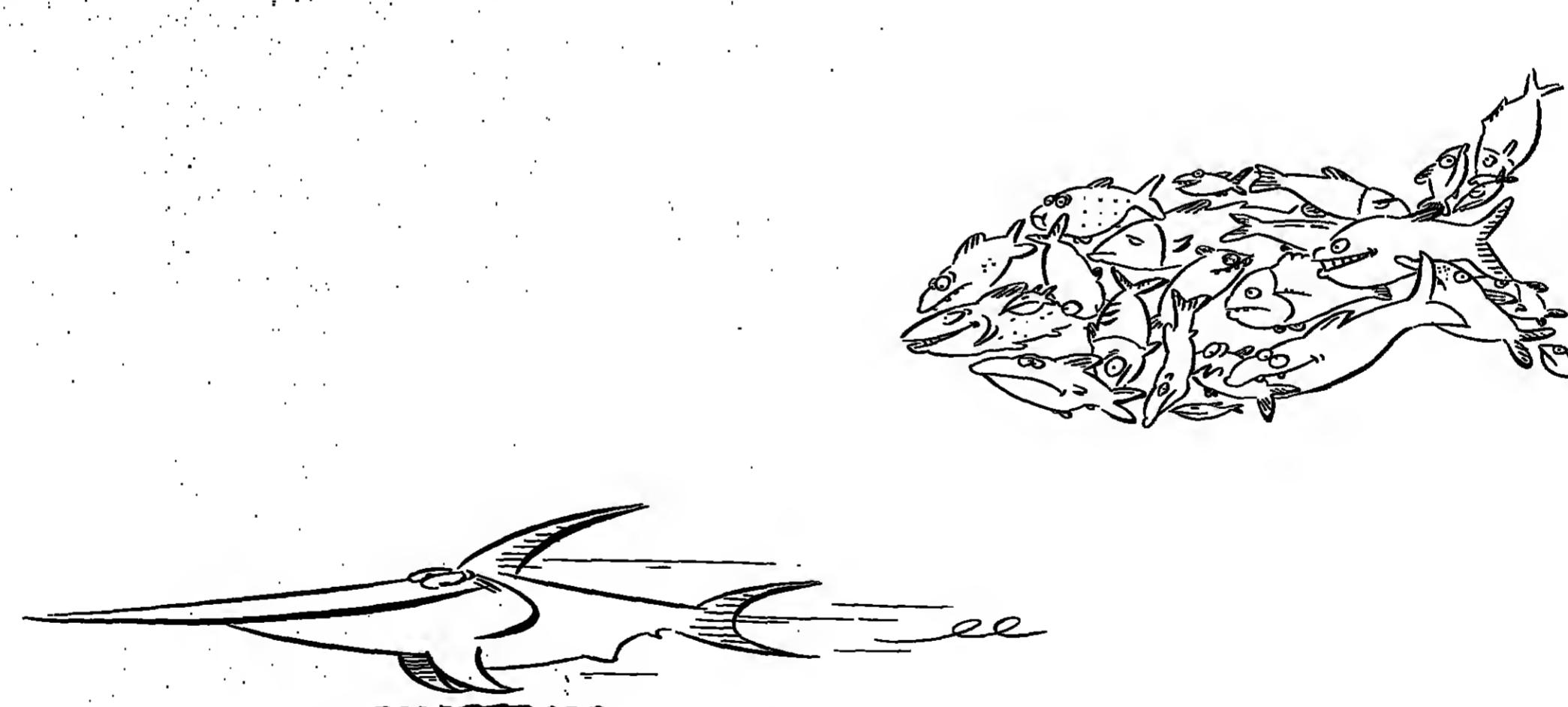
Other experts present an even more dire prospect, with those telephone companies that are unable or unwilling to grasp the internet nettle being destined for oblivion in a very short time.

But it is possible to get all this out of perspective. Telcos in many locations are already benefiting from the many billions of internet packets traversing their networks, even at local call rates. And telcos are also profiting from the internet-driven demand for higher speed access than is provided by the conventional PSTN.

Sales of higher speed solutions such as ISDN are growing rapidly in a number of countries, while as yet pre-commercial digital subscriber line (xDSL) technologies provide the possibility of telcos delivering internet service to customers at speeds of several million bits of information per second.

Meanwhile, many PSTN operators are getting into the internet service provision act in a big way. For example, Gerrese cites a study by the Yankee Group Europe consultancy that foresees the internet market share owned by European telecoms companies rising from 36 per cent of the total at the end of 1996 to 47 per cent by the close of 1998. Some of the empires, at least, are preparing to strike back.

The author is senior technology editor of Global Telephony Magazine



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MORE THAN A CONNECTION

EUROPEAN CELLULAR MARKET REPORT • By Christopher Price

Strong growth to continue

Several key developments are expected to drive growth in the penetration rate

The number of European mobile telephone users has continued to rise sharply during 1997, with analysts predicting that liberalisation, falling prices and greater competition between operators will sustain the strong growth rate.

There were almost 70m new subscribers in the first six months of the year, a 20 per cent increase on the same period a year ago, taking the total number of European cellular phone users to 42m. This equates to a penetration rate of European subscribers able to receive a cellular service - up from 9 per cent to 11 per cent.

The Finns are the most prolific users, penetration rates reaching more than 34 per cent, or more than one in three of the population. This is the highest rate in the world, although the other Nordic countries - Norway (22 per cent), Sweden (31 per cent) and Denmark (27 per cent) are close behind.

Italy has been the fastest-growing market, accounting for more than a quarter of all the new subscribers in Europe this year. Penetration has grown from 11 to 15 per cent as Telecom Italia Mobile and Omnitel have signed up some 7m customers. Italy is now the country with the highest penetration rate outside of Scandinavia. The UK has almost 15 per cent rate; Germany 9 per cent; and France, at 7 per cent, has the lowest penetration rate in Europe.

John Jensen, telecoms analyst at Salomon Brothers, sees few carriers to continue growth in the penetra-

tion rate, which he believes will be driven by several key developments.

Primarily there is the liberalisation of telecoms markets in Europe. By the beginning of 1998, under European Union regulations, all EU countries are expected to have opened their telecoms markets to competition.

While there will be a few lags, such as Portugal, the privatisations this year of two of Europe's biggest former national carriers, Deutsche Telekom and France Telecom, show the pace of change being wrought on the industry.

Although the European mobile market has been among the most open within the telecoms industry, liberalisation will bring further competition and contribute to lower prices.

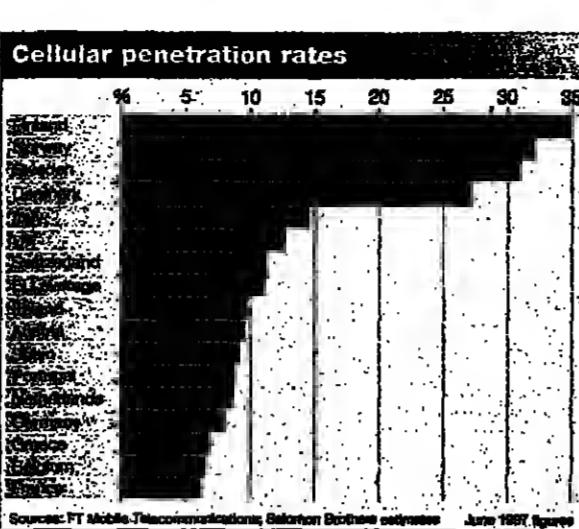
But its greatest effect will be felt in the fixed line market where the former state giants are at their most dominant. Mr Jensen believes that this will eventually have a significant impact on interconnect rates - the fees paid by the mobile operator to the owners of fixed-line exchanges.

"There is no justification for the high rates cellular operators pay for interconnect," says Mr Jensen.

"They should be the same as for fixed-line traffic." He believes the current European average interconnect fee of around 8 cents a call could eventually decline to less than 2 cents.

Other developments driving cellular penetration include the convergence of the fixed and mobile markets. As technology increasingly allows users to merge their communications requirements into both a single number and fewer pieces of equipment, the mobile phone will be seen less and less as a luxury item.

In addition, as cellular numbers of



prices decline and converge with fixed-line prices, the operators' preference for fixed lines will disappear.

Salomon Brothers forecasts that the number of European mobile subscribers will increase from an estimated 50m at the end of this year to 90.5m in 2000. Average penetration rates will rise from 13 per cent to 23.6 per cent.

However, the rate of annual growth is forecast to fall from 41 per cent in 1997 to 16 per cent in 2000.

Italy's rapid growth this year has put it into first place as Europe's largest mobile market, overtaking the UK. The broker estimates that Italy's penetration rate, currently 15 per cent, will double by 2000.

The number of subscribers will increase from an estimated 9.8m at the end of this year, to 17.6m.

Two of the other significant, rapidly-growing markets will be Germany and France. The broker estimates that penetration in Germany will grow from 8.9 per cent this year to more than 19 per cent in three years' time. The number of

subscribers will rise from 5.7m to 15.7m in that time.

French penetration is estimated to grow from 4.2 per cent this year to more than 18 per cent in 2000, while the number of users increases from 2.4m to 10.6m.

The UK, having lost the top spot to Italy this year, is forecast to slip to third place by the beginning of the next century, behind Germany.

Salomon Brothers says the number of UK subscribers will rise from 8.2m to 12.3m in the next three years, representing penetration rates increasing from 14 per cent to 21 per cent.

By the third quarter of this year, the UK was the only European country to add fewer subscribers than in the same period in 1996. It confirmed the country's position as the continent's slowest-growing mobile market.

Mr Jensen attributes this

situation to the relatively high mobile tariffs, which in some cases are 50 per cent higher than in Scandinavian countries. "UK prices are acting as a barrier to traditionally high rates of penetration growth," he says.

NEW PRODUCTS • Compiled by Philip Sanders

Global reach is a reality

Global intranet, a common set of customised, end-to-end intranet solutions that can enhance communications for multinational companies, has been developed and launched by GlobalOne, the joint venture of Deutsche Telekom, France Telecom and Sprint.

Global intranet customers will be able to access their company intranet from almost any location in the world. Dedicated access is available via frame relay networks in 35 countries and remote dial access in about 2,550 cities, on all continents.

The product will support a wide range of applications, including Internet and intranet web hosting, electronic messaging services, groupware, browsers and directories.

GSM innovation

Nortel (Northern Telecom) this month announced innovative GSM radio engineering technology which will allow mobile operators to increase their network capacity by more than 100 per cent and improve the quality of calls for end-users.

Traditional methods of radio frequency planning limit the number of times a given frequency can be re-used in a network. But "fractional re-use" technology deployed by Nortel in several GSM networks in France, China and the US can now support more subscribers than a conventional GSM design could have achieved. The innovation reduces the level of investment and the operating costs for operators.

Brighter Soho

Dull grey boxes will be a thing of the past for Soho (Small Office Home Office) workers, if Xerox has its way. It has even managed to



Helping to make in-car calls safer: NEC Radio's hands-free car kit for use with its G9 GSM handset

make its new HomeCentre colour scanner, colour inkjet printer and colour copier look like a toaster. The £499 HomeCentre turns the family PC into a workstation.

The WorkCentre, a multifunction machine, also priced at £499, integrates colour printing, faxing, copying and scanning.

And the DocuPrint XJ4C colour inkjet printer, which costs £1,699, offers a low-cost alternative to laser printers.

Network software

New network design and planning software from Network Design House is the subject of trials in China (with Cable & Wireless) and Israel and is also due to go on trial soon in both Germany and Korea.

NetScen SDH, a planning tool for operators, equipment suppliers and the consultants who support them, has already been sold to BT.

Mark Wilby, managing director of Network which

has offices in London, Suffolk and Yorkshire, says the launch has been designed to coincide with widespread deregulation of the telecoms market.

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Surf music

Music Choice Europe's new internet music service gives surfers a choice of four different music channels to listen to, uninterrupted by advertisements or DJ chat, while they browse the wide web.

The new "surf music"

service is accessed via cable networks and was demonstrated at the European Cable Communications show at Olympia, London, last month by Music Choice and Telewest who have the service on trial in the UK.

The new Ermes paging transmitter has been developed and produced by NEC. The compact GL-T841LEC has a range of features designed to make it user-friendly and efficient, including up to 16 channel operation, adjustable power output and modular construction for ease of maintenance, plus features which allow monitoring and adjustment of all controls, together with computer-aided diagnostics for improved serviceability.

Mobile messenger

The latest James Bond film, *Tomorrow Never Dies*, will feature the some high-tech wizardry when it is released this Christmas - including

hands-free kit

Amid growing concern about the safety of using mobile phones in cars, NEC Radio has designed a simple hands-free car kit for use with its G9 GSM handset. The kit has an earpiece speaker, cord-mounted microphone, tie clip and jack plug which connects to the phone.

The phone can be set to answer incoming calls automatically, allowing total hands-free operation, and the ring can be heard from the phone or the earpiece.

Mobile messenger

The latest James Bond film, *Tomorrow Never Dies*, will feature the some high-tech wizardry when it is released this Christmas - including

the Possio PM90 mobile messenger which is distributed in the UK by European Telecom. The PM90, which weighs 1.5kg and fits easily into a briefcase, is demonstrated in the film when "M" receives and sends a fax in the back of her car.

The Possio (2849 plus VAT) can also access the internet, send and receive e-mail or scan hard copy documents into its memory... making it a useful communications tool for business travellers as well as secret agents.

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The Poss

A round-up of the telecoms industry: Joia Shillingford takes a look at the news, reviews and forthcoming events

NEWS IN BRIEF

Telcos urged to check systems

The International Telecommunications Union (ITU) says telecoms operators (telcos) should make their software and systems compliant with the year 2000 date format before the end of 1998. This would enable them to test the soundness of their international links with other telcos by the end of autumn 1998.

However, the ITU says: "Clearly, not every country will be able to follow such a tight timetable, which provides sufficient margin for corrective measures. This is why the timeframe is more likely to be January 1998-October 1999."

The aim is to ensure that international calls can terminate in, or transit through, all countries after 2000.

Telworking takes off

ICL is reversing the ageing trend and getting back former employees to help fix year 2000 software problems. One problem - where to put these staff - has been solved by technology.

Retired former ICL employees will telework from home. ICL says more than half the people it has invited back have agreed to telework. The bonus is they know the older software which needs fixing. ICL claims they will "hit the ground running".

Banking on multimedia

Canadian company Nortel has signed a \$100m contract to implement a multimedia network for SBS-Agro Bank in Russia. The project will be financed in part by Canada's export credit agency.

Under the terms of the contract, Nortel will supply communications technology based on X.25 frame relay and Asynchronous Transfer Mode standards. The network will transmit voice as well as data.

Digital TV challenge

Digital television will break apart existing industry structures, according to two reports from research company Ovum.

Digital technology and low-cost production equipment will enable small, independent content owners to challenge the dominance of industry giants. Consequently, the largest companies will need to consolidate their position and act as content aggregators and marketers rather than as content producers, says Ovum.

Watching you, watching me

BT is using a neural network-based surveillance system to cut theft from its vehicle pounds. This used to amount to \$8000 per site per year. But petty crime has virtually stopped at sites where the Witness Surveillance system from Cambridge-based Neurodynamics is used.

What a card

A group of Dutch banks including ABN, Rabobank and SNS is to launch a multifunction electronic purse, loyalty and debit card. Easypurse, which can also support mobile payment schemes, will enable the banks' customers to get loyalty points when visiting local shops such as the butcher or baker. The number of points will be displayed on mobile terminals connected to an electronic funds transfer network. The system was supplied by ICL Precision Retailing.

TELECOMS FUTURES

New technology for era of mobile commerce

A new breed of mobile phones - with a range of fresh functions - is on the way

Mobile phones have freed staff from the office, but suppliers are starting to tempt them with extra services. UK computer services company Logica believes that within three

years, 5.1m Europeans will be spending more than £2.7bn a year by means of mobile commerce.

"People will use new-breed mobile phones to send and receive electronic cash, tickets and loyalty points. For example, commuters will request tickets for public transport, and have them delivered electronically into the phone without the need to queue," says Kevin Duffy, a consultant at

Logica. The tickets will then be read by new smart card barriers which are already being installed in some cities. Tom Alexander, Cellnet's head of business partnerships, says:

"Customers have already shown their interest in mobile commerce by purchasing the Barclaycard-Cellnet mobile phone... The phone, which simply displays the balance of the customer's bank

account, sold over 20,000 in the first six weeks after its April 1997 launch."

Other mobile commerce applications could include: "Seeing loyalty points displayed on the screen of the mobile phone as they are awarded, and paying for phone calls themselves with electronic cash held in the mobile phone," says Andy Tobin, director of smart-card development at Logica.

"Bank systems could

automatically call the customer's mobile overnight to load the latest account information on to the phone, giving the customer accurate information without the inconvenience of making an enquiry," he adds.

Mobile commerce - defined by Logica as the delivery of electronic commerce capabilities directly into the hands of the user via wireless technology - will grow as companies

including Nortel and The Technology Partnership-STNC Enterprises develop phones that can download software and data from the Internet.

Developments in technology that make multi-function smart cards possible will also fuel the trend - as smart cards are used in mobiles. Tony Milbourn, head of computer communications at the Cambridge-based

Technology Partnership, says its WebWalker phone "is more than just a mobile; it becomes a newspaper, a train timetable, a restaurant guide, a Yellow Pages; whatever you want."

Suppliers are also devising solutions for people tired of constant travel. BT Mobility Solutions offers a service which allows PC users involved in a conference call to look at the same presentation on the Internet.

SMALL TALK

Karaoke on Demand

With Karaoke on Demand, enthusiasts will be able to brush up their karaoke performances in private at home before giving up their day jobs... unlike Kimmy Wallace, played by Cameron Diaz (above), reluctantly the centre of attention on stage in the Columbia TriStar film 'My Best Friend's Wedding'

E-mail hiccup

A small change to British Petroleum's e-mail software, Microsoft Exchange, caused many of its messages to be sent to a company mailbox in Africa for a week. And the problem got worse before it got better because Exchange

phone? In Italy, the mobile call costs 65 per cent more than the call from a fixed line, says French research company IDATE.

Daylight robbery? Not really. In other parts of Europe, the gap is even wider. It is biggest in the UK and Sweden, but that is

because fixed phone prices are lower.

Electronic papers

In Britain, the Evening Standard is to re-launch its internet web site, and The Guardian newspaper is going online with additional news.

THINK TANK

Queueing makes callers see red

Recent telephone research has identified the factors that lead to customer fury

such as a negative mood, there is nothing a company can do to delight them," says Cindy Greener, a marketing manager at Cap Gemini.

She says: "They also find it particularly irritating if no IVR category fits their problem, or it takes ages to get through the prompts, or they don't have the option of talking to a human."

However, for simple tasks such as leaving a gas-meter reading, customers did not mind using a system with one or two prompts.

Queueing made customers most annoyed when they were paying for the call and when they did not know how long they were going to have to wait.

Other problems mentioned by customers included the use of scripts, especially when they sounded insincere; music while holding; phones not being answered, or not answered after 10 rings;

being passed around from person to person having to repeat the same problem to several people; and not having the query fully resolved by the end of the call.

"Even when they do call a second time, they can be in

such a negative mood, there is nothing a company can do to delight them," says Cindy Greener, a marketing manager at Cap Gemini.

She says: "They also find

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being passed around from person to person having to repeat the same problem to several people; and not having the query fully resolved by the end of the call.

The qualitative research

BACKCHAT

Students stay in touch

Manchester Metropolitan University's business studies department has found a new way of keeping in touch with students who are placements.

It is using Conference Call Presenter, a BT service that enables people engaged in a conference call to view a private presentation on the internet from their personal computers.

The presentation sits on a web site but is password-protected so that only people with the password can view it.

Carol Forbes, a senior lecturer at the university, says: "Every year a team of academics has to spend a large proportion of their time travelling the length and breadth of the UK to see our business studies students on placement.

"We visit every organisation and student to check their progress and discuss various course requirements.

AGENDA

Dates for your diary

November: Oftel documents on effective competition in the UK, telecoms for disabled people (consultation document), guidelines on business cases for new services. Statement on calls to mobiles.

Events directory inquiries workshop; advisory committee on telecommunications for disabled and elderly people - meeting at Oftel; director-general of Oftel to speak at Telecoms Managers Association, TMA Conference (see below).

November 18-21: IDATE 97 International Conference, Montpellier, France. Tel: 33 04 57 14 44 04.

November 20-21: Twenty years of the Prehistory of Cyberspace... Shaping the Future, IDATE. Tel: +33 467 1444.

November 24-26: TMA 97, 30th annual TMA Conference (Brighton, UK). Telecom Managers Association. Tel: 01372 361284.

November 24-25: Deregulation, Licensing and Interconnection in German Telecommunications (Frankfurt), Tel: 069 2222 2222.

November 24-26: Mobile for

replace the second visit to students.

Ms Forbes, a lecturer in accountancy, used the internet presentation to advise students on how to complete their work placement journal - similar to a diary - and how to apply business theory to the workplace.

The university has not yet worked out how much money it will save, but Ms Forbes points out that costs for the new system will be low because students' employer will pay for the students' conference calls and internet access, with the university only having to pay for one call plus any set-up charge.

The university had been thinking about dropping its second assessment visit to students because it was changing the way it marked them. It no longer required students to complete a work project jointly marked by the visiting lecturer and the employer. And it had a resource problem both in terms of manpower and travel costs.

After trials with Conference Call Presenter, the university has decided to use the product next year to

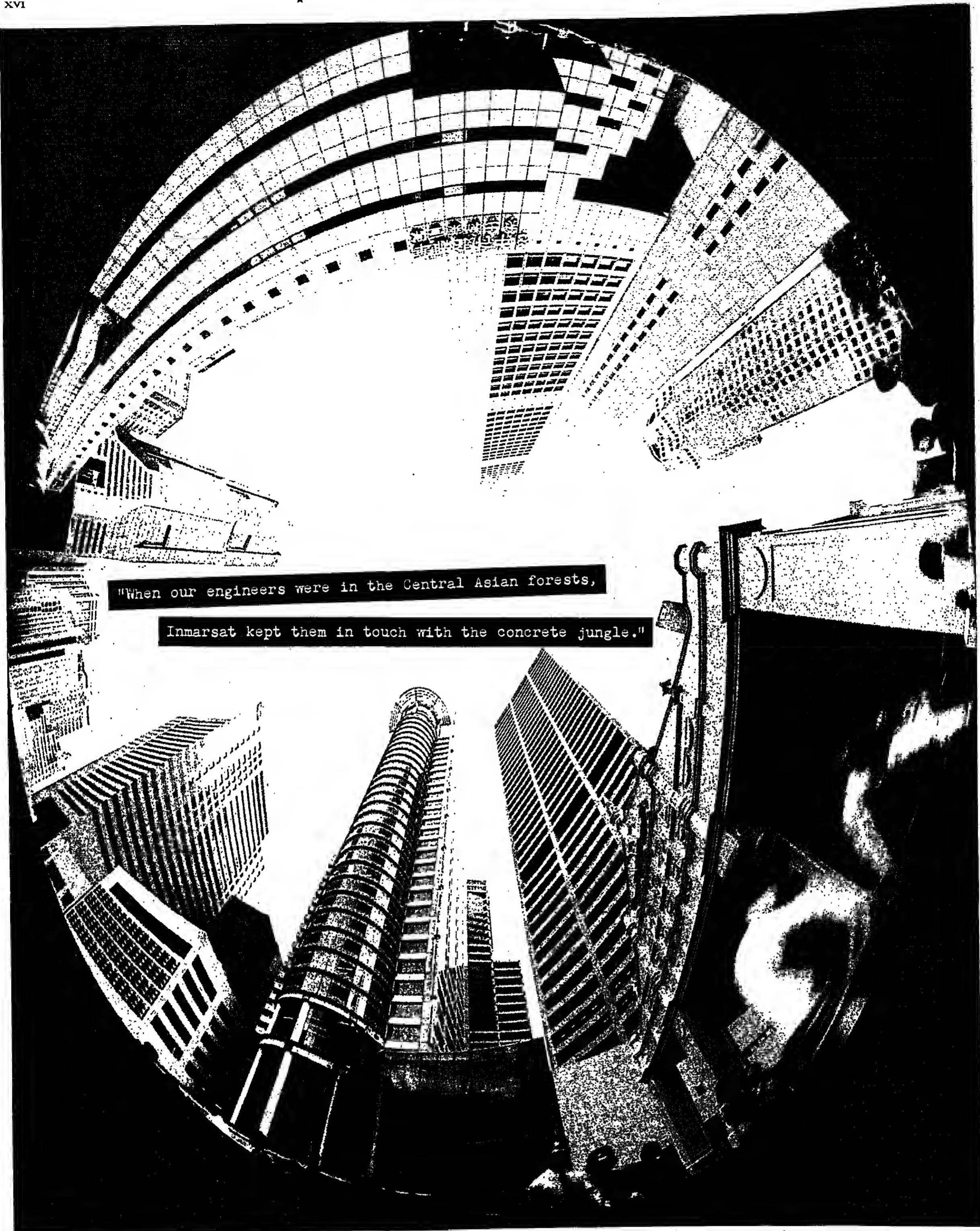
allow students to log on to the web site and view the presentation.

Now the university is considering using the technology to offer distance learning courses to companies.

Download information from the Internet in almost half the time, with Rockwell's K56flex™ technology.

Rockwell

<http://www.rockwell.com>



JAPAN 1997 COURTESY AND INFORMATION COURTESY OF INMARSAT LTD.

When mechanical failure delayed their Namsong River diversion project in Laos, the Hazama Corporation of Japan faced an even bigger problem: the site was in deepest jungle, miles from any reliable conventional communication facilities.

Using Inmarsat's direct satellite technology, the company's offices and the site were able to stay in constant contact by phone, fax and even e-mail, ensuring that spare parts were quickly shipped out. Of course, it's not just construction companies who benefit from Inmarsat. The service is also proving indispensable to

people like corporate executives...oil industry businessmen...truck drivers away from base...government officials...anyone who needs to stay in touch wherever they are.

What's more, today's satellite equipment is as portable as a notebook PC and the service affordable enough to use at any time. So if you want to stay in contact wherever you are, make contact with Inmarsat.

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جامعة لوس

FINANCIAL TIMES SURVEY

THE LOTTERY BUSINESS

The UK's National Lottery is now a part of its culture. Maintaining that success will not be easy, says Scheherazade Daneshkhu

An institution with a winning formula

There are few people in Britain who have resisted chasing the finger of fortune in the three years since the National Lottery's launch. More than 90 per cent of the population has played after the first televised on-line draw in November 1994. More than 60 per cent are regular players.

The National Lottery, the UK's first for more than 150 years, has become a national institution, part of daily life and culture, according to Chris Smith, minister for culture, media and sport. It is the world's largest lottery.

Its impact has been felt in both social and economic terms. Socially, it has introduced gambling to a wider audience. New players have been attracted by its low stakes/high rewards formula. It has prompted a change in Britain's strict gaming laws which has made other types of gambling more accessible.

The Lottery's high profile launch challenged the philosophy behind UK gaming legislation which outlawed operators from stimulating demand. Its television advertising campaign provoked an outcry from the bingo, pools, betting shop, casino and fruit machine industries. They have successfully lobbied for more relaxed legislation.

Betting shops have been

allowed to open up their shop fronts, casinos have been made more accessible and fruit machines are more user-friendly.

These changes have encouraged more people to gamble. About 70 per cent of the UK's population used to gamble before the Lottery's launch, according to Mintel, the market research group which estimates that the proportion is now more than 90 per cent.

Although the Lottery has taken market share away from some gambling rivals – notably bingo and pools – it has been instrumental in increasing the size of the gambling market. Arthur Andersen, the accountant, estimates that the amount spent on gambling in the UK has almost doubled from £9bn before the Lottery's launch to £17bn.

These increases have provoked fears of gambling addiction, particularly among the young. Gamblers

Anonymous, the telephone helpline, says there has been a 17 per cent increase in gambling addiction since the Lottery's launch.

The National Lottery has

made gambling part of main-

stream culture," according to Paul Beltringer, director of GamCare, a national helpline for problem gamblers, particularly teenagers, set up by the government. "A few years ago gambling still had a stigma attached to it, but now young people will grow up seeing gambling as very normal. Maybe that is healthy but there is bound to be some knock-on effect."

Financially, the Lottery's

impact has mainly been on individual sectors rather than the economy as a whole. "People haven't diverted large sums of money from one source but from number of different sources," according to Simon Briscoe, UK economist at Nikko Europe. "If you look at whether the spending has

been great enough to affect retail sales, gross domestic product or inflation, the answer is no."

The sectors most affected have been pools and bingo, where sales have dropped steeply and jobs have been lost. Charities have also been affected.

A recent survey of 100

charities by Barclays Global

Investors published in NGO

Finance, found that more

than half of charities had

suffered falls in voluntary

income from the public. How

far this was connected to the

Lottery was open to question,

said the report, but those who denied a link had

"to put forward a credible alternative explanation"

for the difficulties suffered

by well-established, house-

hold name charities.

Charity managers are,

however, interested in the

Lottery as a source of income

– the National Lottery Charities

Board became one of

the UK's most important

charity funders overnight.

The Lottery has also

brought life into small inde-

pendently-owned news-

agents, which were losing

out to supermarkets.

Camelot, the consortium

which won the bid to operate

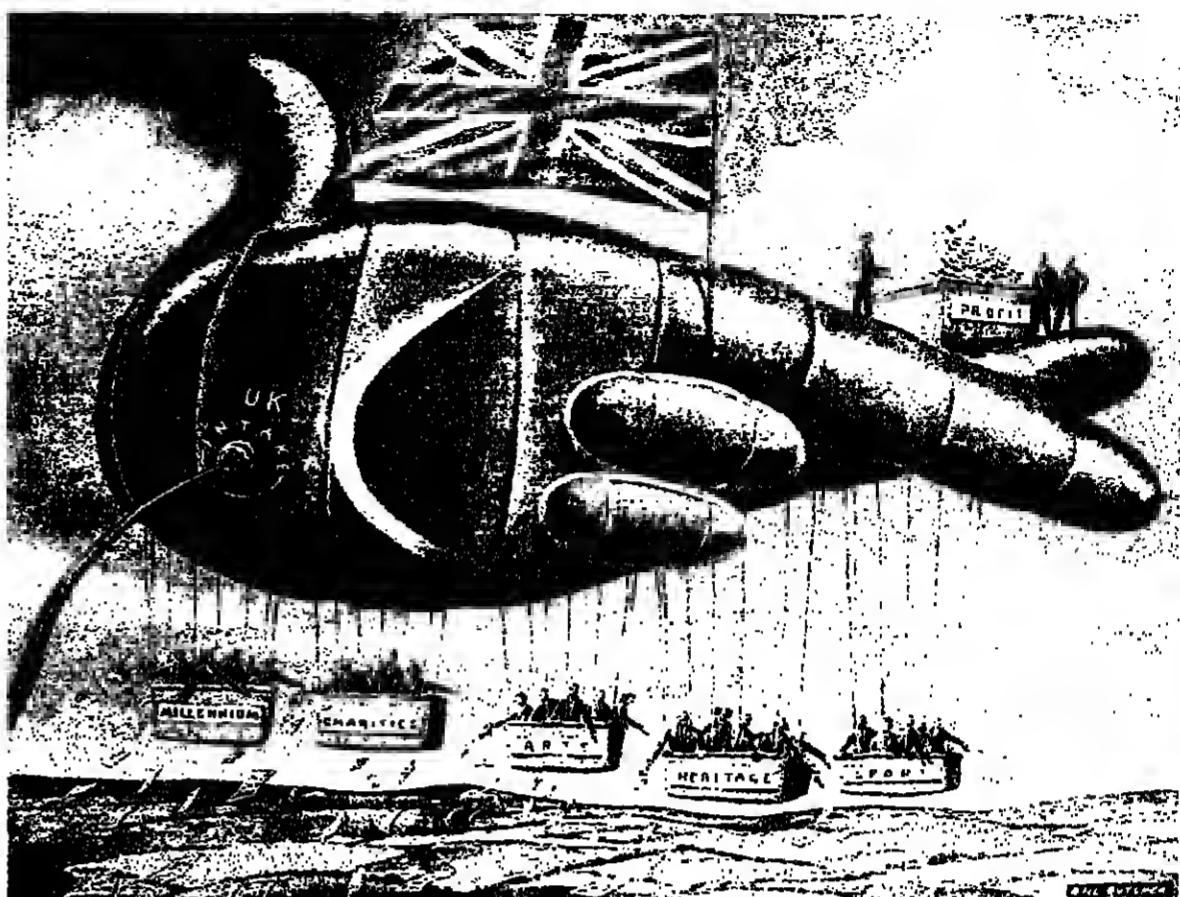
the lottery for its first seven

year term, can point to its

successes. It has raised

£4.2bn for the arts, heritage,

charities, sports and Milen-



nium projects. Since its

launch it has produced

£11.4bn of sales, 21m win-

ning tickets – albeit most of

them for a £10 prize. It is on

track to surpass by £1bn its

target of raising £9bn for

good causes.

It is the world's most effi-

cient lottery in terms of the

percentage of sales returned

to good causes and govern-

ment in due time, according

to Terri La Fleur, president of

TLF publications and an

expert on world lotteries.

But the Lottery has never

been far from controversy –

from those who despair that

most of the revenues are

raised from the least well-off

in society for mainly elitist

projects such as opera or the

Churchill papers, to those

who criticise Camelot for

making too much profit or

exploiting its monopoly.

And although it is the

world's largest lottery, it

lags 16 others in terms of per

capita lottery expenditure.

Labour, which promises to

tighten the Lottery's regulation

and curb the profits of

its next operator after its

White paper in July, has also

injected controversy by seek-

ing to establish a sixth good

cause raising money for

health, education and the

environment.

Almost half-way through

its licence period, the Lot-
tery is under pressure to
regain sales lost to the Lot-
tery are threatening to eat
into the Lottery's market.

Camelot recently dropped
legal action to have the 18s
numbers game launched by

the UK's three largest book-
makers declared illegal after
losing its private prosecution

in August.

However, the govern-
ment's decision last week to
ban *Pronto!*, a rapid draw
Keno-style game has come as a
relief though Inter Loto, the
charity lottery manager, will still launch the game in
pubs and clubs next week until the ban is imposed in
the summer.

New games launched by

| Camelot | |
|-------------------|------|
| Shareholders | % |
| Racal | 22.5 |
| GTECH | 22.5 |
| Cadbury Schweppes | 22.5 |
| De La Rue | 22.5 |
| ICL | 10.0 |
| Sarco, Camelot | |

other gambling operators to
regain sales lost to the Lot-
tery are threatening to eat
into the Lottery's market.

Camelot is trying to
carve out an independent
future for itself. It is looking
at opportunities overseas to
act as a consultant or be an
operator of lotteries.

Mr Holley admits that part
of the rationale is to retain
staff who might otherwise
leave as the licence termina-

tion date draws closer.

The company is also devis-
ing a long-term incentive
scheme to retain executives.

"The first few years of oper-
ation were the most exciting.
Now it's a question of main-
taining efficiency and the
motivation of the team to

the end of the licence
period."

HOW CAMELOT WORKS • by Scheherazade Daneshkhu

Peaking early poses particular problems

Initial excitement has passed and the challenge will be to maintain motivation

When Camelot fought off seven opponents to win the Holy Grail of the National Lottery licence three years ago, even it underestimated the value of its prize.

The knights at the round table, in the shape of Camelot's five shareholders – confectionery giant Cadbury Schweppes, De La Rue, the security printer, electronics group Racal Electronics, computer maker ICL and G-TECH, the US lottery operator – have enjoyed substantial profits sooner than expected.

Ticket sales reached

£5.2bn in the year to March 31, 1996 – the first full year of operation – a figure the consortium did not expect to reach until year three.

Peter Davis, director-general of Ofot, the government's lottery watchdog, wrote to Conservative MPs in September 1994 that he expected Camelot to make a net loss in the early years of the licence.

Instead, Camelot made after-tax profits in the first year of £51.1m – virtually equivalent to its £50m original investment – and it declared its first dividend two years ahead of schedule. Post-tax profits the following year – to March 1996 – were £46.8m after a fall-off in the sale of scratch cards.

The success of the Lottery means more money has been distributed in prizes and to

lottery. It also estimates that the five partners could have lost £200m in equity investments and bank guarantees if anything had gone wrong.

The shareholders also have contracts to supply goods and services. One of the strengths of the consortium's bid was that the members could each contribute to the running of the lottery.

ICL, Racal and G-TECH provide the on-line terminals and computers while De La Rue has printed the instant tickets and provided consultancy. Cadbury Schweppes has given consultancy services on consumer marketing. Camelot says the value of these contracts is confidential.

Although Camelot's 1 per cent take cannot be altered under its licence terms, its

unexpectedly high profits have raised questions. These exploded into a public row in June after Camelot disclosed a 40 per cent rise to £2.35m in payments to 10 directors for the year to the end of March 1997. Chris Smith, minister of culture, said that public confidence in the Lottery could be eroded if directors were seen as paying themselves too much.

Labour has, however, backed down on its manifesto pledge which stated that it would seek a not-for-profit operator, paving the way for Camelot to rebid once its licence expires in 2001. In its white paper, which is expected to result in a parliamentary bill next month, Labour said its aim was to maximise the return to good causes and remove "unnecessary" profit mar-

gins. The next operator would also face curbs on executive pay.

Camelot will be more tightly regulated. Peter Davis, director general of the National Lottery, will be given powers which be requested to fine Camelot. He regards his current sanctions – court injunctions and licence revocation – as too draconian. Some licence breaches have however been serious. Last year there was a 7 per cent shortfall in the number of stops in which Camelot was obliged to install terminals. Moreover, the figures provided by Camelot turned out to be unreliable, according to Mr Davis who said that he had been empowered to impose financial penalties on Camelot he would have done so.

The National Audit Office

is also likely to be given

powers to inspect Camelot's accounts. Earlier this year, a Commons public accounts committee said it was "concerned that there were obvious defects in the verification procedures for certain types of payments" a year after the Lottery's launch.

Tim Holley, chief executive of Camelot, is strongly opposed to this measure, claiming that the Lottery is already more tightly regulated than other gambling industries. "We've got a regulator and he's got access to the books. The National Audit Office by practice doesn't have access to the books of private companies."

Despite the prospect of increased regulation and a curb on profits, he says Camelot is determined to bid again.

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we operate within each territory's culture and terrain.

So every player can share the same dream of winning,

whether they're in the High Street or the Highlands.

From devising new software and games to pioneering transaction and network technology, GTECH has unrivalled experience and expertise worldwide.

We are proud to play our part in the success of the UK National Lottery, helping them to raise revenues for the good causes. Making sure that people can always play, wherever they happen to live.

EVERYBODY WINS

2 THE LOTTERY BUSINESS

INTERNATIONAL LOTTERIES • by Michael Thompson-Noel

A money-spinner underpinned by fantasies

Running a lottery looks easy but operators must run hard just to stand still

Size matters in the lottery business, especially to the people who run the UK's often-harried National Lottery. Since its launch in November 1994, the UK lottery has had to contend with the slings and arrows of the media, including snooty criticism by the broadsheet press, which has often displayed a primitive understanding of how lotteries work, or even what they are for.

Lotteries are for fun. Specifically, they sell fantasy, and are thus related to other parts of the global broad-and-circuses business which brightens people's lives. At present, I am brightening my own life by spending £10 per week on the UK lottery.

£5 on Wednesdays, £5 on Saturdays.

Very occasionally, I win £10. But the reason I spend £10 a week is based on imagining that some day I will win £100,000, or £20m.

I know in my bones I won't win such a sum. But I am not stupid, or not outstandingly so. I am buying a fantasy – nothing more, but also nothing less.

This fantasy is the hope of winning an extravagantly large prize in return for a small stake – what underpins the \$120bn per year international lottery business. Without the fantasy, there would be no lotteries.

By almost all criteria, the UK lottery is extremely successful. Some of its successes-to-come were predicted in an FT article on January 2 1994, 10 months before its launch. "The UK lottery," said the article, "is likely to be mounted and marketed with state-of-the-art skills. Its launch adver-

tising budget will be one of the fattest plums in UK advertising history. And, with a wealth of foreign lottery experience to draw upon, there will be no excuse for Britain's lotto isn't the most secure and technically advanced operation of its kind."

Yet the writer of that article held back from predicting one of the most noteworthy accomplishments of the UK lottery – that it would establish itself as the world's biggest.

Figures compiled by America's Terri La Fleur, who is president of TLF Publications and a world expert on lotteries, show that the UK lotto is both the world's largest in terms of sales, and also No. 1 when "government profit" – percentage of sales allocated to charitable beneficiaries, plus all forms of tax: betting duty, VAT and corporation tax – is calculated.

Terri La Fleur has sur-

veyed 102 lotteries around the world, and declares that the UK's lottery is top dog saleswise, with annual sales of \$7.75bn. Generally, her figures relate to calendar 1996 or to a given lottery's latest financial year.

Second, third, fourth and fifth in the global list were the national lotteries of Spain (£7.6bn), Japan (£6.52bn), France (£6.46bn) and Italy (£4.09bn), followed by six individual US state lotteries (New York, Texas, Massachusetts, Ohio, California and Florida).

However, the UK is not a world beater in per capita lottery expenditure. Sales per capita for the UK lottery probably sound high to some ears, at an annual \$136 (sales divided by total population, not just the lotto players).

But on a per capita basis, the UK lottery ranks only 17th internationally, a long way behind Singapore, for example, where annual per capita lottery expenditure is

a remarkable \$545, or Massachusetts (\$505).

The main reason the UK stands only 17th in world per capita lottery spending is no doubt related to the wide availability of commercial gambling opportunities: general betting, casinos, gaming machines, bingo and football pools, as well as the lottery.

Media criticism of the UK lottery is principally targeted at the way some of the proceeds are allocated, even though this has nothing to do with Camelot, the operator. Other media heeds include Camelot's own profits, and directors' pay.

It is thus a great relief to Camelot that Terri La Fleur's analysis of international lotteries places the UK lotto atop the list of lottery profits not only by total sales, but in terms of government profit as a percentage of sales.

The latest figures for the UK show that its lottery produced a government profit of

\$3.35bn, or 43.67 per cent of sales, in its most recent financial year. This figure includes the sums handed to the five good causes that have to date benefited from lottery money – arts, charities, sport, national heritage and a special fund to help underwrite celebrations of the millennium. It also includes the 12p in £1 that the government takes in lottery duty. In addition, another 1p in £1 goes to the government in VAT and corporation tax.

The UK lottery is thus an important source of government revenue, in addition to the money (approximately 28p in £1) allocated to good causes. In 1995, for example, the UK lottery's contribution to the national kitty in VAT on bets and in betting duty was \$826m. This outpaced the contributions from off-course betting (\$497m), gaming machines (\$375m), bingo and football pools (\$236m). At 43.67 per cent of sales,

the UK government's lottery profit was ahead of that yielded by Germany's Westdeutsche lottery (42.25 per cent) or, in third place, by the New Jersey state lottery (41.83 per cent). In 20th place was the Ohio lottery (32.39 per cent), while Belgium's state lottery (28th) yielded a government profit of only 21.15 per cent of sales.

Government profit is not the only way to measure a lottery's success. Fair-minded observers would argue that a generous payout rate to the punters is important.

But hard-edged Terri La

Fleur says: "This is the second year that TLF has ranked Camelot as [operator of] the world's most efficient lottery. I can't imagine a more important benchmark for a lottery organisation, since a lottery's mission in the broadest sense is generating the maximum profit for government."

However, a lottery opera-

PROFILE Peter Davis

A 'safe' but controversial tenure

For a self-confessed "boring, middle-aged chartered accountant", Peter Davis has found himself the subject of a surprising degree of controversy since becoming director-general of the National Lottery in 1993.

Mr Davis, with an impressive array of banking, insurance and retailing jobs behind him, was chosen because ministers felt he could work with the private sector consortium which would ultimately run the contest.

"The government saw me as reliable and safe, with high standards in my personal and professional life," he says in an interview with the Financial Times.

Under his supervision, the National Lottery has become an outstanding success, raising more money for good causes than anyone had predicted.

Yet Mr Davis has not had an easy ride. His detractors claim he has operated a relaxed regulatory regime which has allowed Camelot to get away with high profits and licence breaches. There were strong criticisms from MPs for his decision to accept free trips in a private aircraft owned by G-Tech, one of the

companies in the Camelot consortium.

In recent weeks there has been some media speculation that Chris Smith, the heritage secretary, may decide not to renew his contract when it expires in October 1998.

Mr Davis acknowledges the criticisms with a shrug, but says he is proud of his record. "Regulators are here to take stick," he says. "We're an easy target, and don't get much credit when things go well. I recognised that when I took the job on."

However he admits there were times when the intense personal criticism hurt, particularly over the saga of the free air trips. "I have no problem with accountability – people should be accountable for their decisions," he says. "But some of the intrusion into my family life and personal life has been unwarranted and unreasonable."

Born in Woking, in the Surrey commuter belt, Mr Davis has spent most of his life in comfortable towns within an hour's train ride of London.

His career, which included spells at Price Waterhouse, the accountants, Harris

Queensway, the retailer, and Sturge Holdings, the insurer and stockbroker, could not have prepared him for the intense scrutiny of his new life at the head of Ofot.

Mr Davis's acceptance of G-Tech's hospitality in 1994 marked him out as a target for particular criticism, particularly in a period in which "sleaze" and the activities of "fat cats" were never out of the headlines.

In spite of Camelot's healthy profits, Mr Davis denies he has been "soft" on the operator, a claim made earlier this year by the Commons public accounts committee. Its report suggested the regulator should adopt a more proactive approach.

promoting more the public interest, using his personal energy and the power of his legal status to that end".

Ofot's role is to make sure the lottery is run with propriety, and I must exercise my role to maximise revenues for the good causes," he says.

The only way to do that is to make sure the lottery is successful. To an extent you have to work alongside the operator to make it successful, because that is what parliament has told me to do."

He defends Camelot's profits, which he said reflected the risks the consortium took in setting up the contest and its success in running a large and complex business. But he points out that the risks are now largely diminished.

Mr Davis is also at pains



to point out that he gets tough with Camelot when necessary. He will soon be given the powers he requested to fine the operator for breaches of licence. He views his current weapon, court injunctions and licence revocation, as being "nuclear options".

He said he was "extremely angry" over

on advice from Ofot.

Mr Davis's opposition to Ofot is also partly rooted in his concern that the lottery should be developed at a sustainable pace, with Camelot unsure of retaining its licence in 2001 and understandably anxious to make money in the short term. Mr Davis's role as the custodian of the lottery could provoke conflict over the next few years.

He felt the company handled the question of directors' remuneration badly. "I've made it clear that these public issues have to be handled very carefully to avoid damaging the lottery as a whole."

Neither has he been prepared to bow to Camelot's requests for more games.

The company wanted to compete against rival operators in setting up an American-style "Keno" rapid-draw game in pubs and clubs, where punters buy tickets for competitions held on television screens every 10-15 minutes.

But Mr Davis ruled the game out-of-bounds, partly because of fears that it could be addictive. Camelot's anxieties were heightened by the fact that Inter Lotto, a charity lottery manager, plans to launch a Keno game on November 27.

However George Howarth, home office minister, has indicated he is likely to introduce legislation to ban Keno games – a move thought to be influenced at least partly

by advice from Ofot.

Tables are turned as Labour is accused of using lottery to offset spending cuts

When the national lottery was launched in 1994, the funds the contest raised were portrayed by ministers as the icing on the public spending cake. Billions of pounds would go to "good causes", which would otherwise have missed out on government expenditure.

The white paper includes plans for training and support for the 500,000 serving teachers in the UK in the use of IT in the classroom and the training of 10,000 library staff in the use of technology.

The new fund will also pay for out-of-school activities, including homework supervision and creative classes, involving at least half of all secondary schools and a quarter of all primary schools. Activities would range from extra coaching in basic literacy skills and numeracy, to opportunities for sport and arts classes.

The department of culture, media and sport has promised that bidding arrangements would be flexible, with the aim of encouraging bids from schools with little experience of raising money. There would also be a core network of healthy living centres, of the kind already operational in some towns and cities.

For instance, the West End health resource centre in Newcastle brings together the statutory and voluntary sector to help around 2,000 people a week to enjoy a healthier lifestyle.

It provides health and fitness facilities, community health services like physiotherapy, preventative initiatives and information on local health and social services. The white paper suggests the centres might be based in churches, schools, libraries or leisure centres, and could play a key role in helping to tackle drug abuse, stress, alcoholism and smoking, as well as promoting healthier lifestyles.

The cash would be distributed to deserving projects by the New Opportunities Fund, and would be aimed at those which were innovative, carefully targeted and time-limited. As initiatives were completed, new ones would take their place.

The Liberal Democrats have joined the chorus of criticism of Mr Smith's proposals. Robert Macleman, the party's home affairs spokesman, pondered what limit he would place on the erosion of the lottery's principles by other cash-strapped cabinet ministers.

Virginia Bottomley, the former heritage secretary, said: "The additional principle has been breached, the jackpot winners are the Treasury, and the successful lottery will be seriously damaged by these proposals."

Although both Mr Blair and Mr Smith have promised to adhere to the principle of "additionality", there is nothing in the original National Lottery Act of 1993 to compel them to do so.

The rule that lottery money should top up existing spending was set out in "financial directions" by the secretary of state at the time of the act. Politicians may decide it is easier to blur the lines over than to tamper with one of the lottery's funding principles.

THE FIVE GOOD CAUSES • by Alasdair Buchan

A chance 'to solve the unsolvable'

Problems of an ever-growing process of assessment and monitoring

in the wonderful world of National Lottery funding it can be difficult to see the facts for the statistics. The latter say that £4.5bn has been allocated to more than 30,000 recipients since 1993.

Look closer and the picture is varied if not contradictory. For a start, that total is a 35 per cent success rate for applicants, so another £3.5bn worth of hopes remain unfulfilled, at least for the moment. Nor does the simple average of £150,000 tell you much. More significant is that 30 per cent of the money (£1.32bn) has gone to only 87 projects; and the Greenwich Exhibition, the Royal Opera House and the Tate Gallery represent 40 per cent of that

money between them. Balancing that concentration of resources has been a proliferation of small awards to the benefit of hundreds of thousands of individuals. For so many minor projects the release of Lottery funds represents a magnificent proliferation of realised dreams. Would Wummin Drummin, the group of socially isolated Glasgow women, have got new drums from any other source?

The task of spreading the Lottery largesse far and wide has been unprecedented in grant-making. The funding board that has faced the biggest challenge is the National Lottery Charities Board which received more than four times as many applications as the other good causes put together. David Sleath, chairman of the National Lottery Charities Board, outlines the scale of the task his staff face compared to other boards.

"Three things in our work, have been different. First, others had an existing distribution system, whereas we and the Millennium Commission had to start absolutely from scratch."

Second, we have given nearly the same number of grants as all the other distributors put together. The third distinct factor has been that the sheer number of voluntary organisations requires a considerable amount of time of our Board. We have made more than 11,200 grants totalling £662m – drawn from over 50,000 applications."

That volume has meant an ever-growing mountain of assessment and monitoring. To keep on top of it the NLCB took a decision at the start not to provide a reason for every rejection it made.

However, a pilot scheme for providing computer-generated explanations is being tested in Northern Ireland and the new Government has made it clear that it feels

a way must be found to inform all failed applicants.

Another priority Chris Smith has demanded of the funding boards is that they take a more strategic approach to their work. In particular, say sources at the Culture Department, he expects proposals for more streamlining of their work and a fall in duplicated effort. As a result, another pilot scheme will start next year in Scotland which involves setting up a "one stop shop" structure to simplify the applications which will handle applications to all the good causes except the Millennium Commission.

John Rafferty, director for Scotland of the NLBC explains: "I will be called in to the Community Project Fund and will be used for community bids with an income of less than £10,000."

One aim of the new plan is to help small organisations who are unsure of who to apply to. Surprisingly, it will

also be able to make grants where even the funders are unclear about whose remit the applicants' plans fall under.

It is only now that it is possible to attempt some analysis of trends within the Lottery sector. One is in the debate between capital and revenue funding. The founding principle of the Lottery had been that money was to be used for capital projects. But the pendulum has moved towards revenue as populist demands for Olympic medals has joined with the clamour of theatres who have fine buildings but no cash to mount productions.

Yet another pilot scheme is underway by the Arts Council of England to determine if the American concept of "stabilisation awards" – one-off grants to arts organisations to help them through difficult times – can be adapted beyond the arts hordes involved.

The continued upheavals should not blind anyone to the overall opportunities the Lottery provides, says Lord Rothschild, chairman of the EFL.

He highlights his board's £15m grant to Manchester City Art Gallery. "For 100 years Manchester had owned the land and wanted to build an extension on it. Now we can. We should use the Lottery as a catalyst to carry out those all too rare, once-in-a-lifetime opportunities, to solve the unsolvable."

Alasdair Buchan is publisher of Lottery Monitor, the Lottery funding newsletter.

IMPACT ON RETAILERS • by Peggy Hollinger

A loaf of bread and a flutter please

Lottery tills are a saving grace for some outlets and a mixed blessing for others

Before the launch of the National Lottery three years ago, Britain's independent retailers might arguably have been on the endangered species list.

CUSTOMERS were deserting Britain's higher-priced independents in favour of supermarkets which were trading for longer hours and even usurping the corner shop's traditional high street location due to planning restrictions on out-of-town developments.

Now, however, the Wednesday and Saturday evening jackpots bring in new customers hopeful of making their fortune while picking up a pint of milk and a loaf of bread.

The National Lottery has so far paid £700m in commission to its 35,000 retailers, of which some 70 per cent are independently owned. Retailers get a 5 per cent commission on every £1 ticket sold, which for a small grocer making average sales from a single terminal can add up to a hefty £10,000 profit over 12 months.

The biggest beneficiaries of the lottery are hard-pressed newsagents. Retail consultant Verdict describes the lottery as "something of a lifeline in the face of all the

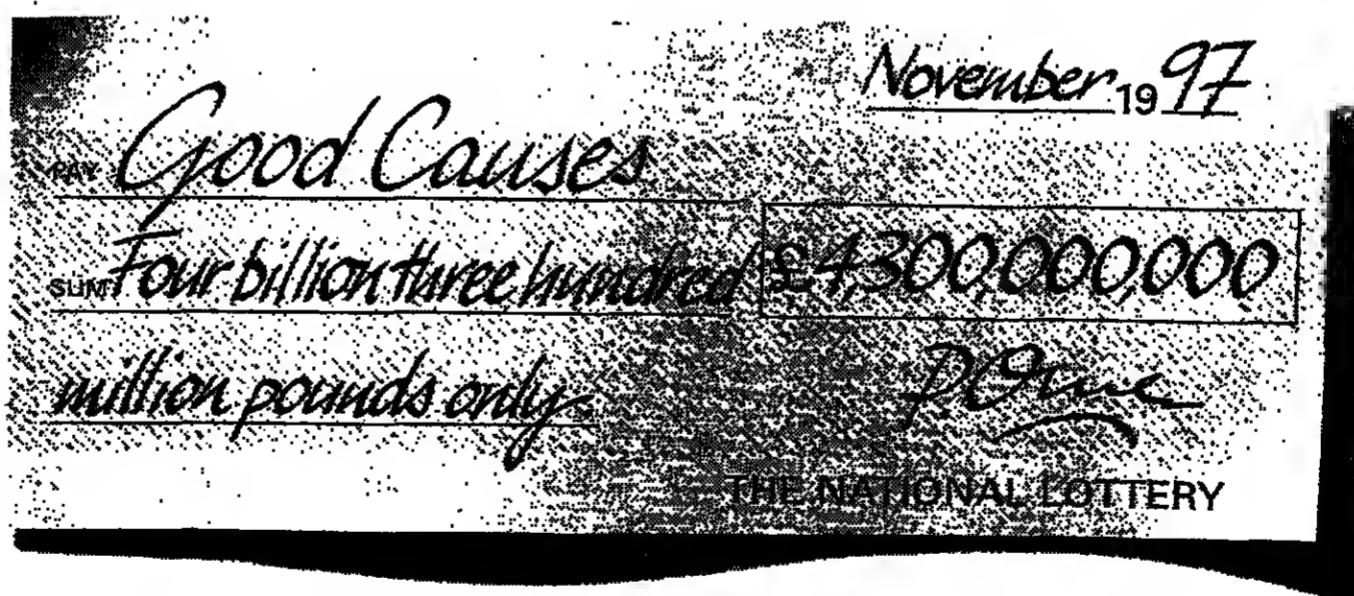
other obstacles facing the small, traditional player in the sector".

Mintel, the market research group for the retail sector, estimates that 38 per cent of adults regularly buy their tickets in a newsagent. It is not an exaggeration to say

fantasies

matter of
interpreting
opportunities

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millennium, the range of schemes funded has been diverse. The groups supported have also covered the rich spectrum of life in the UK. From village cricket clubs, to disabled swimming groups, to our leading art galleries and museums. We are delighted by how much has been raised for the Good Causes, and would like to thank all the players of The National Lottery who made this possible.



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4 THE LOTTERY BUSINESS

TELEVISION • by Maggie Brown

A happy marriage of convenience

Television draw is the stuff of viewers' fantasies and a finely-spun feelgood factor

Television has been vitally important in sustaining the success of the National Lottery over the past three years. This is because buying a ticket and having a flutter have become a mass market national activity, in which around 30m people take part every week.

Having a live televised draw on Saturday nights clearly injects a degree of dramatic excitement and involvement. But it is not the only important element.

Camelot needs the Lottery to be seen as a positive part of British life and no broadcaster can deliver this better than the BBC.

In fact, Camelot's close and apparently happy relationship with the UK's public service broadcaster, is a critical - but also controversial - factor in its robust health. "We are not just selling tickets, we are positioning ourselves as a brand. We need the educational side, to show where the money on good causes is going," says Camelot spokesman, Louise White.

The BBC cannot take advertising, but it enjoys a remarkable freedom otherwise when devising programming. And it delivers an aura of all important respectability. In truth, the BBC-Camelot link has elements of a marriage of convenience: both sides have now a near perfectly balanced need of each other.

Back in 1994, the BBC won the rights to exclusively broadcast the Lottery, within a specially agreed programme, much to the dismay of its rival (the advertising-supported) network, ITV. One reason ITV could not compete was that Camelot also wanted a commitment to launch a second midweek programme built around a



Mystic Meg: a constant factor

scratch card game show which involved randomly selected players. This ran counter to the independent Television Commission rules at the time, which require terrestrial broadcasters to exercise editorial control to of any programme.

Cynics might also say the arrangement suits Camelot, because while it can always buy into the advertising airtime on the commercial channels, the BBC would otherwise have remained a closed book.

Lottery broadcasts began on November 14, with a special boor-long programme, in which Noel Edmonds drove a lorry of bullion from a bank vault to the studio. It was watched by 22m. But striking the best long-term format took time, although Mystic Meg remained a constant element.

Under the contract, for which the BBC has criticised for paying around £500,000 a year, it was initially committed to taking the draw, physically, around the country, to emphasise it was a national event. But this turned the Lottery into a glorified outside broadcast, which lacked fizz.

By March 1995 Michael Leggo, head of BBC light entertainment, had settled for a fixed National Lottery London studio. The BBC mix

of fun, glamour and information is well liked by the operators, who are delighted that audiences overall average above 10m. In turn it has been able to attract top bands and film stars, to perform the vital task of starting the balls rolling. Mr Leggo describes it as "a teat pole" holding up BBC's Saturday night schedule. The perceived success is why the BBC's contract was extended in June, for a further year, without opening up the exercise to anyone else.

But there is bound to be competition for the final three-year period of the contract when talks open next year. Camelot itself explained that the year-long extension was a cautious response in a rapidly changing TV environment where interactivity is drawing closer. ITV confirms it remains very interested.

This is because the Lottery regularly takes more than 50 per cent of the available audience, offering a huge advantage to the host channel which will hope a good proportion of that family audience will remain with it.

Even though viewing leaps only in the programme's final moments to a peak of 17 to 18m viewers, at a time of fragmenting audiences that is a prize worth fighting over.

That has put pressure on

IMPACT ON OTHER FORMS OF GAMBLING • by Scheherazade Daneshkuhi

Levelling the playing field

Rival industries are looking for fair means to shorten the odds against them

There has been much talk of foul play on unlevel playing fields since the National Lottery's launch. Footie pools, bingo clubs, betting shops, fruit machines operators and casinos have all been angered by the promotion of the National Lottery despite the UK's strict gambling laws.

The rival gaming industries, particularly pools and bingo, have been hurt by the arrival of the Lottery. All say they do not oppose competition but claim that they have had to fight against the Lottery with one hand tied behind their backs.

That has put pressure on

marketing department and the weight of advertising giants Saatchi and Saatchi behind them promoting the lottery seems easy.

Annual marketing expenditure is around 1 per cent of sales - the exact figure is not made public by Camelot. A code of practice is provided by the lottery's regulator, Ofot, providing strict guidelines for advertising.

Yet the actual heart of the lottery experience in the UK remains the televised draws on BBC1 on Saturdays and, more recently, Wednesdays, which also provide an unparalleled self-promotion opportunity. As well as the draw itself, the 20-minute programmes consist of a combination of light entertainment, a look at some of the good causes that are lottery funded and provide an opportunity to hear past winners tell their stories.

Responsibility for programming is split between Camelot, who take charge of the formal 80-second draw, and the BBC - who retain editorial control over the remainder. Camelot's two broadcast managers work in the studio with the BBC production team on a day-to-day basis to develop and enhance the show.

Rawdon Glover, Camelot's marketing manager, says Camelot has full "input on things that affect the National Lottery brand".

"Industry experts" were involved when we first looked at the format," he says. "Many were sceptical about a programme lasting longer than five minutes, but as a brand it was important to use it by featuring winners and looking at products. To go to a five minute programme now would be a retrograde step."

But the lottery programme is not necessarily an automatic licence to produce higher ratings, says Michael Leggo, the BBC's head of light entertainment. "It's continual R and D. At the same time we'd be mad not to continue to plan new shows with Camelot. We're not complacent."

He says the midweek programme does not achieve viewing levels as high as the Saturday draw, but believes viewer habits differ according to the time of the week and that this is reflected in ticket sales. He adds: "I am proud of the fact that no one does this sort of programme. It has become a national institution. Other countries treat their lottery like a news service."

The UK model would not suit every country. A spokesman for the Irish national lottery, prior to Camelot's launch the most successful weekly lottery in Europe, describes their three minute programme as "merely informational". Instead of an entertainment-style draw, two game shows - the contestants for which are chosen from winning scratch cards - are run at regular intervals.

This strategy, he says, which has been in place for 11 years, has resulted in more than 90 per cent of the population taking part in the lottery and almost 100 per cent brand recognition.

"There isn't the same level of razzmatazz as in the UK, though the core nature is similar," he says, "but we do keep in touch with what the players want. Once people know how to play the game then it is just a matter of reinforcement."

Camelot is well aware of the need for reinforcement. Rawdon Glover says: "We are sustaining a 20 minute show and drawing 10m viewers. Our future goal is to sustain that interest and, in an ideal world, to build our audience base back to the 15m it was a year ago."

Chris Cleaver, a director with branding consultants Interbrand Group, calls the National Lottery "an example of a very interesting brand that has to be admired by the industry", adding that any problems experienced by Camelot tend to be attached to the perceived ethics of the product.

"The BBC, being who they are, lent it a little more dignity," he says, "but Camelot also used the rest of the media support well."

The government - first the Conservatives and now Labour - to relax gambling laws. The gaming industries have also tried to regain market share by devising new games and marketing incentives.

The philosophy behind UK gaming legislation enshrined in the 1968 Gaming Act - which many believe is hopelessly outdated - is that operators must not stimulate demand. That put strict restrictions on advertising.

However, the then government's enthusiastic launch of the National Lottery - with an advertising campaign focused firmly on winnings rather than helping good causes - undermined this philosophy.

Leisure operators were able to argue that the Lottery made a nonsense of the notion that people should not be encouraged to gamble. The government, as sponsor of the Lottery had become the biggest promoter of gambling, they said.

The Lottery had to change the government's view on betting and gaming. Without it, we wouldn't have got deregulation," says Stephen Devany, head of corporate affairs at Ladbrokes, which owns the UK's largest chain of betting shops and Vengers, the second largest pools company.

The Home Office acknowledges that gambling deregulation has been aimed at: "evening out playing fields."

The measures have included allowing bingo and pools to advertise on television as well as in print. Betting shops were allowed to

open up their shop fronts and membership rules for casinos have been relaxed. Limits on fruit machine and bingo prizes have been raised.

However, deregulation has been painstakingly slow, with some of the benefits coming too late for rival operators to recover from the Lottery's initial blow.

Mr Devany believes that if the pools companies - the worst affected industry - had been allowed television and radio advertising before the Lottery's launch instead of later, they may have been able to prevent the scale of the subsequent decline. Vengers has reduced its workforce by two-thirds.

Pools operators say the game has suffered because it is the most similar to the Lottery. "Both are low cost, long odds types of bets," says Roger Calvert, secretary of the Pools Promoters Association, which is lobbying for cuts to pools betting duty which has already been reduced to 10%.

The split was caused because Rank and Bass wanted to lobby for limits on the amount they could add to prize money to be lifted in order to offer large jackpots.

Smaller operators, however, feared they would be unable to compete if the government were to allow this.

Betting shops have argued

37.5 per cent to 26.5 per cent - still above the Lottery's duty rate of 12 per cent. Annual pools turnover has fallen by 40 per cent since the Lottery's launch from £537m to last year.

However, Mr Calvert says the Lottery's blow has not sent the industry into terminal decline. "Companies are trying to think up new games and ways to interest the public. They are fighting back." Littlewoods, the largest operator, has launched new games, such as the short-form pools and scratch cards.

Bingo has also been badly affected. Attendances fell by 15 per cent between March 1995 - when lottery scratch cards were introduced - and November 1996.

The number of clubs has fallen by 7 per cent since 1992 to 855 clubs last year, according to Mintel, the market research group.

The pressures have polarised the industry. Rank and Bass - which account for about 60 per cent of UK bingo players - broke away from the Bingo Association of Great Britain, which used to represent the whole industry, last year and set up a rival organisation - the British Bingo Operators Association.

The split was caused because Rank and Bass wanted to lobby for limits on the amount they could add to prize money to be lifted in order to offer large jackpots.

Smaller operators, however, feared they would be unable to compete if the government were to allow this.

Betting shops have argued

that the court ruled that 19's was not an illegal lottery. Bookmakers have responded to Instants with other initiatives, such as allowing their customers to bet on the Irish lottery.

Likewise, rival scratch card operators have upped their efforts. At the end of 1996, Littlewoods, the privately owned retail and leisure group, acquired UK Charity Lotteries in a deal bringing together UKCL's Lucky brand with Littlewoods' Scratchies. According to Littlewoods, these have a combined turnover of about £70m.

To fend off rivals, Camelot has sought to maintain interest in Instants by introducing games with different prize structures and methods of play. Each has to be approved by Ofot, the industry regulator. In spite of this, Camelot has introduced 32 games in just 2½ years.

In July, Camelot won Ofot approval to launch a TV game show, expected to begin on the BBC next year where scratch card winners will be entitled to appear and play for bigger prizes.

Mr Wilkie thinks the innovation will have the desired effect. "Given that scratch cards are very straightforward - that is one of their attractions - the real challenge is in identifying new methods of bringing them to the customer," he says.

"Television is a good method of doing that because it will bring the product directly into people's homes. This is very much the way forward."

SCRATCH CARDS • by David Pilling

The biggest impulse buy

The low-skill, short thrill game is trying to acquire some sparkle

He is 14 years old. A loner. Unpopular at school and unloved at home, he takes some solace in the instant thrill of scratch cards, easily available at an unscrupulous newsagent less than 300 yards from his school gate. When he wins he feels like a hero. When he loses he tries to impress his peers by taking it on the chin. More often than not he loses.

This is the profile of a typical under-age scratch card player, says Paul Bellinger, director of CamCare, the national helpline for problem gamblers launched by the government last month.

In the vast majority of cases, says Mr Bellinger, scratch cards are nothing more than the "harmless flutter" claimed by Camelot, whose Instant cards, launched in March 1995, command about 90 per cent of the market. But they can have a more pernicious effect.

"Scratch cards - being low stake, rapid turnover and interactive - are a form of gambling that has an addictive side, and some people are tempted to chase losses," he says. "This may even lead them into petty crime."

Iain Wilkie, a partner in the hospitality and leisure group at Ernst & Young, says that, even though stakes are low, "for vulnerable people, scratch cards

have the potential for being hard gambling". Unlike bingo at the softest end of the gambling spectrum, Instants have no social element, payouts are relatively low (because much of the stake goes to good causes) and the thrill of playing is brief.

Instants pay out 35 per cent of the gross stake as winnings, compared with nearly 50 per cent for bingo and 80 per cent for bookmakers. Many bingo halls - and all casinos - require punters to apply 24 hours in advance for membership, ensuring a steady flow of customers.

Camelot has set up so-called "cooling off periods". To play scratch cards one simply walks into a shop and buys a ticket. Camelot hotly contests the idea that Instants are anything other than a bit of fun. "Instants do not attract gamblers because playing is an entirely random activity," says Louis Harvey, a Camelot spokeswoman. "You are not looking at odds, studying the form or applying skill... we don't believe there is a problem of excessive playing, or of under-age gambling."

In a very few cases, concedes Ms Harvey, people with a tendency to compulsive behaviour may find that scratch cards feed their addiction. Camelot has set up hotlines to enable the public to report newsagents suspected of selling scratch cards to under-16 year-olds. It has also agreed to contribute £150,000 to GamCare over the next three years.

Camelot may be leery of having Instants associated with compulsive behaviour. but Instants have a whopping \$348.

Certainly Camelot has not had things all its own way when it comes to Instants. Bookmakers, who were hit hard when Camelot introduced scratch cards, have fought back with their 49's game. In August, Camelot lost a private case against Ladbrokes, William Hill and Coral, operators of the game,

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